



# **Benchmarking Accident Towing Fees and Options for Annual Adjustment**

A Final Report for the Essential Services  
Commission

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## 1. Introduction

The Essential Services Commission (the Commission) is responsible for conducting periodic reviews of accident towing and storage fees in the Melbourne Controlled Area. The last review, completed in June 2010, determined fees with reference to survey information on the costs of operating a towing truck business. The information was collected via an online survey issued to all accident towing licence holders.

As part of its current review of accident towing and storage fees the Commission has asked NERA Economic Consulting (NERA) to:

- provide information on the fees charged for accident towing and other similar relevant services (eg, trade towing) within Victoria and other states and territories; and
- develop options and make a recommendation about an approach to annually updating accident towing and storage fees.

We understand that the benchmark information will be used by the Commission to inform its recommendations on accident towing and storage fees to apply in the Melbourne Controlled Area.

This report sets out our advice in relation to the two matters identified above. It is structured as follows:

- Section 2 provides information on price benchmarks on accident towing, trade towing, clearway towing, council impound towing and heavy vehicle escort services as potential comparators for accident towing services in the Melbourne Controlled Area; and
- Section 3 describes and evaluates options for the annual updating of accident towing fees.

## 2. Price Benchmarks for Accident Towing Services

Accident towing and storage is a regulated service in a number of specific geographic areas within Victoria, including:<sup>1</sup>

- in the Melbourne Controlled Area, covering the metropolitan area of Melbourne and the Mornington Peninsula; and
- in the Geelong Self-Management Area, which includes Geelong and surrounding areas.

While accident towing and storage fees are formally regulated within the Melbourne Controlled Area, there is no formal price regulation in the Geelong Self-Management Area. That said there is a formal allocation system operating in both areas.

Accident towing and storage services within the remainder of Victoria are currently unregulated. There is no formal accident allocation system and accident tow truck operators are free to compete for accident tow jobs.

This section provides information on:

- accident towing fees in Victoria;
- accident towing fees in other jurisdictions;
- trading towing and clearway towing fees;
- council impound towing fees; and
- fees charged for heavy vehicle escort services.

Importantly, in our opinion information on the fees charged for comparative services provided in competitive markets (eg, trade and clearway towing, and heavy vehicle piloting and escort services) provide a more useful benchmark to assess the appropriateness of accident towing fees in Victoria than simply comparing regulated accident towing fees between jurisdictions. This is because the interaction between many buyers and sellers in these competitive markets ensures that the resultant fees are more likely to align with the underlying cost of providing the comparison service.

In contrast, regulated accident towing fees in each jurisdiction are set with considerable uncertainty about the underlying cost to provide the service. This can result in regulated fees differing substantially, both above and below underlying costs. The likelihood that regulated fees diverge from underlying costs will be higher for those regulated industries where there is a lack of reliable data on the cost to provide services. As a consequence, some of any observed difference in regulated accident towing fees between jurisdictions is likely to be as a consequence of differences in the availability of information and/or uncertainties about the underlying cost to provide the regulated service.

### 2.1. Accident towing fees in Victoria

Accident towing and storage in the Melbourne Controlled Area is regulated by VicRoads under the *Accident Towing Services Act 2007*. The Act requires tow truck operators to be

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<sup>1</sup> Page VI and VII, ESC, (2013), Periodic Review of Accident Towing and Storage Fees, Issue paper, February.

licensed by VicRoads and prohibits them from undertaking an accident tow unless it has been allocated to them under the accident allocation system. Each licence is for a specific region within the Controlled Area and therefore only accidents within that region are allocated to the license holder, although a truck can be associated with multiple licences and therefore multiple regions. The Act also states the maximum towing and storage fee that tow truck operators can charge for accident towing.

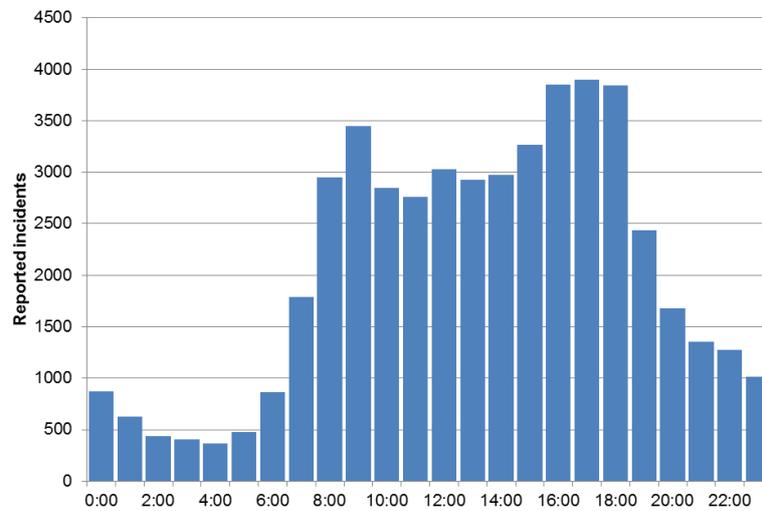
Currently there are 421 licences issued across the Melbourne Controlled Area – a figure that has remained steady since 2007. The current average transfer price for these licences is approximately \$400,000, and licence transfer values have been relatively stable since the last review in 2010 – Table 2.1. However, this follows a period of four years of significant increases, including a 60 per cent increase between 2008 and 2009. Accident allocations per licence have followed an upward trend in recent years – a direct result of the steady increase in the number of accident tows required in the Controlled Area.

**Table 2.1: Accident towing licence statistics<sup>2</sup>**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Licence Transfer values (\$k)	\$175	\$213	\$340	\$387	\$387	\$400
Accidents per Licence	99.0	98.6	101.9	106.4	110.1	107.6

Figure 2.1 shows the daily distribution of accidents in the Controlled Area for 2012. Approximately 57 per cent of accidents occurred between 8am and 5pm and a further 27 per cent between 5pm and 10pm. The data includes weekends and public holidays and so once this is taken into account, approximately 50 per cent of accidents occur during business hours, ie, 8am to 5pm on weekdays.

<sup>2</sup> Licence transfer values have been provided by VicRoads. Accident licence data available at [www.vicroads.vic.gov.au/Home/Moreinfoandservices/TowTrucks/AboutTheIndustry/2012Tow+Truck+Accident+Allocations.htm](http://www.vicroads.vic.gov.au/Home/Moreinfoandservices/TowTrucks/AboutTheIndustry/2012Tow+Truck+Accident+Allocations.htm).

**Figure 2.1: Daily distribution of accidents in the Controlled Area (2012)<sup>3</sup>**

In the Melbourne Controlled Area, tow truck operators can charge a maximum base towing fee (including GST) of \$196.90 for each tow, \$3.10 for each kilometre over 8 kilometres and up to \$15.10 for each day of storage.<sup>4</sup> The base fee covers:<sup>5</sup>

- the removal of debris from the accident scene;
- cleaning the tow truck;
- wait time at the scene;
- administration tasks, including making phone calls, preparing documentation and taking photographs; and
- unpaid tows.

Tow truck operators can charge an additional \$67.20 on top of the base fee for jobs that occur outside of business hours (ie, 8am to 5pm on working days) –Table 2.2.

<sup>3</sup> Information provided by VicRoads

<sup>4</sup> Page 26 ESC, (2013), Periodic Review of Accident Towing and Storage Fees, Issue paper, February

<sup>5</sup> VicRoads website, available at: [www.vicroads.vic.gov.au/Home/Moreinfoandservices/TowTrucks/AboutTheIndustry/TowTruckFees.htm](http://www.vicroads.vic.gov.au/Home/Moreinfoandservices/TowTrucks/AboutTheIndustry/TowTruckFees.htm)

**Table 2.2: Key features of regulation and current accident towing and storage fees (including GST) – Victoria**

<b>Key features</b>	<b>Description</b>
Base fee	\$196.90
Coverage of base fee	The base fee includes: <ul style="list-style-type: none"> <li>• first 8 kilometres of travel; and</li> <li>• all time associated with services covered by the base fee.</li> </ul>
Distance fee	\$3.1 after 8 kilometres
Storage fee	\$15.1 for cars under cover \$10.10 for cars in locked yard
Fee for additional working time	N/A
Business hours	8am to 5 pm on working days
After hour surcharge	\$67.20 on top of the base fee
Annual adjustment	CPI (Melbourne, Transport) – 0.5%, with 0% floor
Allocation system	Yes
Area of operation	Metro areas

From 2010 to 2012, accident towing and storage fees have been adjusted annually by the rate of change of the Consumer Price Index (CPI) (Melbourne, Transport) minus 0.5 per cent as a productivity adjustment. Prior to 2010, regulated fees were not adjusted on an annual basis – Table 2.3.

**Table 2.3: Regulated accident towing fees in Victoria – 1989 to 2013<sup>6</sup>**

Year	Base fee	Distance fee	After hour surcharge
1989	\$84.00	\$1.35	-
1991	\$93.00	\$1.50	-
1992	\$95.00	\$1.55	-
1997	\$100.00	\$1.60	-
2000 (Jul)	\$109.45	\$1.70	-
2000 (Dec)	\$158.00	\$2.50	\$54.00
2003	\$168.45	\$2.65	\$57.55
2010 (Nov)	\$189.50	\$3.00	\$64.75
2011 (Nov)	\$194.40	\$3.10	\$66.40
2012 (Jul)	\$196.90	\$3.10	\$67.20

## 2.2. Accident towing fees in other jurisdictions

Accident towing fees are also regulated in other jurisdictions in Australia, including:

- Queensland;
- New South Wales; and
- South Australia.

This section provides an overview of the key features and fees for each of these jurisdictions. When comparing regulated fees between jurisdictions it is important to consider those factors that influence both the underlying cost of providing services, and also the total revenue earned by towing operators. Differences in fees can reflect differences in regulatory arrangements, the nature of the service included within the regulated fee, historical price setting practices within the jurisdiction, and industry characteristics (eg, number of accidents, size of the industry, structure of industry and regulation and market characteristics of related industries).

### 2.2.1. Queensland

Accident towing in Queensland is governed by the *Tow Truck Act 1973* and the associated *Tow Truck Regulation 2009*. This Act covers both city areas (including Brisbane, Cairns, and Gold Coast etc) and regional areas (including Gatton, Caboolture, and Esk etc).<sup>7</sup> An accident allocation system does not exist in Queensland.

<sup>6</sup> Page 46, ESC, (2013), Periodic Review of Accident Towing and Storage Fees, Issue paper, February.

<sup>7</sup> Page 42, *Tow Truck Regulation 2009*.

Tow truck operators can charge a maximum base towing fee (including GST) of \$293.80 for each tow and \$5.85 for each kilometre over 50 kilometres in Queensland – Table 2.4.<sup>8</sup> This fee is fixed regardless of when the job occurs (ie, there is no surcharge for jobs conducted during non-business hours, weekends, or public holidays). The base towing fee covers:<sup>9</sup>

- 60 minutes of working time at the accident site;
- moving the vehicle to the required location; and
- 3 days of storage in a holding yard.

The maximum fees for additional storage and additional working time have not been explicitly declared. However, tow truck operators “may only charge an amount that is reasonable”<sup>10</sup> for the job.

**Table 2.4: Key features of regulation and current accident towing and storage fees (including GST) – Queensland**

Key features	Description
Base fee	\$293.8
Coverage of base fee	The base fee includes: <ul style="list-style-type: none"> <li>• first 50 kilometres of travel;</li> <li>• 3 days of storage; and</li> <li>• up to 60 minutes of work time.</li> </ul>
Distance fee	\$5.85 after 50 km
Storage fee	Not regulated
Fee for additional working time	Not regulated
Business hours	N/A
After hour surcharge	N/A
Allocation system	No
Area of operation	Metro and other areas

Accident towing and storage fees in Queensland have been increasing at between 2 and 3 per cent each year from 2004/05 to 2012/13 – Table 2.5. These increases are broadly in line with changes to the CPI over the same period.

<sup>8</sup> Page 40, *Tow Truck Regulation 2009*.

<sup>9</sup> Page 27, *Tow Truck Regulation 2009*..

<sup>10</sup> Page 27, *Tow Truck Regulation 2009*.

**Table 2.5: Regulated accident towing fees in Queensland – 2004/05 to 2012/13<sup>11</sup>**

Year	Base fee	Distance fee (over 50km)
2004/05	\$231.60	\$4.70
2005/06	\$237.60	\$4.80
2006/07	\$244.50	\$4.95
2007/08	\$251.60	\$5.10
2008/09	\$263.65	\$5.30
2009/10	\$271.80	\$5.45
2010/11	\$279.95	\$5.60
2011/12	\$290.05	\$5.80
2012/13	\$293.80	\$5.85

### 2.2.2. New South Wales

Accident towing in New South Wales is regulated by the *Tow Truck Industry Act 1998* and the associated *Tow Truck Industry Regulation 2008*. Similar to Queensland, New South Wales does not have an accident allocation system.

The regulation sets out different applicable regulated fees for metropolitan and other non-metropolitan areas. We have focused on metropolitan area fees because these are a more relevant benchmark for fees within the Melbourne Controlled Area.

In metropolitan areas, tow truck operators can charge a maximum base towing fee (including GST) of \$264 for each tow, \$6.40 for each kilometre over 10 kilometres and \$19.80 for each day of storage after 3 days.<sup>12</sup> An additional 20 per cent on top of the base fee and distance fee can be charged for jobs conducted outside of business hours (8am to 5pm on working days). – Table 2.6.

The services included in the base fee in New South Wales are broadly similar to the services included in the base fee for the Melbourne Controlled Area. Relevantly, tow truck operators are prohibited from charging additional fees for:<sup>13</sup>

- removing debris from the scene;
- cleaning the tow truck;
- any costs associated with securing the towing work;
- administrative tasks, including taking photos and preparing documentations; and

<sup>11</sup> *Tow Truck Regulation 2009* as amended.

<sup>12</sup> *Tow Truck Industry Regulation 2008*, Division 2.

<sup>13</sup> Note that this list is not exhaustive. *Tow Truck Industry Regulation 2008*, Division 7.

- wait time at the scene.

Fees to recover stolen vehicles, undertake salvage services and conduct secondary towing services are also regulated in New South Wales.

**Table 2.6: Key features of regulation and current accident towing and storage fees (including GST) – New South Wales metro area**

Key features	Description
Base fee	\$264
Coverage of base fee	The base fee includes: <ul style="list-style-type: none"> <li>• first 10 kilometres of travel;</li> <li>• 3 days of storage; and</li> <li>• all time associated with services covered by the base fee.</li> </ul>
Distance fee	\$6.40 after 10 km
Storage fee	\$19.80
Fee for additional working time	N/A
Business hours	8am to 5 pm on working days
After hour surcharge	20% surcharge on top of the base fee and distance fee
Allocation system	No
Area of regulation	Metro area
Other features	Salvage fees (\$ 62.70 per hour) and secondary towing fees (\$84 per tow) are also regulated in NSW

Fees in New South Wales are adjusted by the rate of change of the CPI each year – Table 2.7.

**Table 2.7: Regulated accident towing fees in New South Wales – 2009/10 to 2012/13<sup>14</sup>**

Year	Base fee	charge over 10 km	Storage fee
2009/10	\$244.20	\$5.92	\$18.70
2010/11	\$248.60	\$6.03	\$18.70
2011/12	\$255.20	\$6.18	\$19.25
2012/13	\$264.00	\$6.40	\$19.80

<sup>14</sup> *Tow Truck Industry Amendment (Maximum Fees) Regulation 2012*, as amended.

### 2.2.3. South Australia

Accident towing in South Australia is regulated under the *Motor Vehicles Act 1959*, *Motor Vehicles Regulations 2000*, and *Prices Act 1948*. Similar to the Melbourne Controlled Area, there is an accident allocation system operating in South Australia, which covers Adelaide and the surrounding metropolitan areas.

Tow truck operators can charge a maximum base towing fee (including GST) of \$320 for each tow, \$2.82 for each kilometre over 20 kilometres and \$21 for each day of storage.<sup>15</sup> Tow truck operators can charge \$52 and \$1.02 in addition to the base fee and distance fee, respectively, for jobs conducted outside of business hours (ie, 7:30am to 5pm on working days).

The base towing fee includes:<sup>16</sup>

- 30 minutes of waiting time or working time at the scene, including any time spent engaged in salvage services; and
- the use of equipment to recover and tow the vehicle.

The maximum fee for additional working time, which includes any time associated with vehicle salvage, is regulated at \$46 for the first tow truck operator (\$33 for any additional staff) during business hours (\$69 and \$56 during non-business hours). In addition, South Australia is the only jurisdiction that has a regulated fee for commissions paid to tow truck operators on subsequent smash repairs – Table 2.8.

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<sup>15</sup> Note that these fees also apply to towing vehicles from storage areas to a place to repair. Source: Prices Order No.1133 (S.A.)

<sup>16</sup> Prices Order No.1133 (S.A.)

**Table 2.8: Key features of regulation and current accident towing and storage fees (including GST) – South Australia**

<b>Key features</b>	<b>Description</b>
Base fee	\$320
Coverage of base fee	The base fee includes: <ul style="list-style-type: none"> <li>• first 20 kilometres of travel; and</li> <li>• up to 30 minutes of waiting and working time.</li> </ul>
Distance fee	\$2.82 after 20 km
Storage fee	\$21 and \$12 each day for covered and uncovered storage respectively.
Fee for additional working time	\$46 per hour for first tow truck operator. \$33 per hour for additional staff.
Business hours	7:30am to 5 pm on working days
After hour surcharge	\$52 for base fee, \$1.02 for distance fee and \$23 per hour for truck operators and any additional staff on top of the normal fees
Allocation system	Yes
Area of operation	Metro area
Other features	Commissions for smash repairs is regulated in South Australia. Salvage fees are also regulated at the hourly rate mentioned above.

The base fee, distance fee and storage fee did not increase between 2003/04 to 2006/07, but have since steadily increased from 2007/08 to 2012/2013 – Table 2.9.

**Table 2.9: Regulated accident towing fees including GST in South Australia – 2003/04 to 2012/13<sup>17</sup>**

Year	Base fee	Charge over 20km	Storage fee – covered	Storage fee - uncovered
2003/04	\$213 (\$251)	\$2.01 (\$2.79)	\$13.78	\$6.38
2004/05	\$213 (\$251)	\$2.01 (\$2.79)	\$13.78	\$6.38
2005/06	\$213 (\$251)	\$2.01 (\$2.79)	\$13.78	\$6.38
2006/07	\$213 (\$251)	\$2.01 (\$2.79)	\$13.78	\$6.38
2007/08	\$240 (\$283)	\$2.26 (\$3.14)	\$15.53	\$7.19
2008/09	\$240 (\$283)	\$2.26 (\$3.14)	\$15.53	\$7.19
2009/10	\$251 (\$296)	\$2.36 (\$3.27)	\$16.22	\$7.51
2010/11	\$292 (\$341)	\$2.55 (\$3.55)	\$21.00	\$12.00
2011/12	\$298 (\$347)	\$2.65 (\$3.6)	\$21.00	\$12.00
2012/13	\$320 (\$372)	\$2.82 (\$3.84)	\$21.00	\$12.00

### 2.2.4. Summary

The regulation of accident towing differs significantly across jurisdictions. These differences include:

- the geographic area covered by price regulation;
- the services included in the base fee;
- the use of a formal accident allocation system; and
- the maximum accident and towing fees that operators are allowed to charge.

The Melbourne Controlled Area differs in several key features when compared to other jurisdictions – Table 2.10. Notably, the Melbourne Controlled Area:

- has a formal accident allocation system;
- has the lowest base fee (at \$196.80) and highest base fee surcharge for jobs conducted outside of business hours (at \$67);
- includes the shortest distanced travelled and no storage days in the base fee; and
- includes all of truck operator’s time involved in conducting services included in the base fee.

<sup>17</sup> Figures in brackets represent the charge applicable for jobs conducted outside of business hours. This information has been sourced from various South Australian government Gazette notices, available at [www.governmentgazette.sa.gov.au](http://www.governmentgazette.sa.gov.au)

**Table 2.10: Summary of key features across jurisdictions**

<b>Key features</b>	<b>New South Wales</b>	<b>Victoria</b>	<b>Queensland</b>	<b>South Australia</b>
Area covered by price regulation	Metro	Metro	Metro and other areas	Metro
Base fee coverage	<ul style="list-style-type: none"> <li>• 10KM;</li> <li>• 3 days of storage; and</li> <li>• All work time involved with job</li> </ul>	<ul style="list-style-type: none"> <li>• 8KM; and</li> <li>• All work time involved with job</li> </ul>	<ul style="list-style-type: none"> <li>• 50KM;</li> <li>• 3 days of storage; and</li> <li>• Up to 60 minutes of work time</li> </ul>	<ul style="list-style-type: none"> <li>• 20KM; and</li> <li>• Up to 30 minutes of work time</li> </ul>
Allocation system	No	Yes	No	Yes
Base fee	\$264 (\$317 for non-business hours)	\$197 (\$264 for non-business hours)	\$293.80 for all towing jobs	\$320 (\$372 for non-business hours)
Distance fee	\$6.4 per KM after 10km	\$3.1 per KM after 8km	\$ 5.85 per KM after 50km	\$2.82 (\$3.84) per KM after 20km
Storage fee - covered location	\$19.8 per day after 3 days	\$15.1 per day	Fees are not regulated. Storage fees are incurred after 3 days	\$21 per day
Salvage fees	\$62.7 (\$75.2 for non-business hours) per hour	Requirement that salvage fees are 'reasonable'	Requirement that salvage fees are 'reasonable'	\$46 (69 for non-business hours) per hour for first staff. \$33 (\$56 for non-business hours) per hour for additional staff.

The differences between each jurisdiction means that the fees are not directly comparable across them without specifying the nature of the accident towing job (ie, kilometres travelled, work time required, and number of storage days). For comparison, in Table 2.11 we have calculated the total fee (during business hours and non-business hours) for a 'typical' accident towing job that involves:

- 30 minutes of working time at the scene;
- 15 kilometres travel from the accident scene to the depot; and
- 3 days of storage of the vehicle.

We have also calculated the fee based on a simple average of a fee for business and non-business hours because we believe this provides a reasonable approximation of the 'average'

fee for an “typical” towing job.<sup>18</sup> This approach ensures that the estimated ‘average’ fee also represents the average revenue that a tow truck operator receives for each tow over the course of a year.

Notably, the results show that the total fee for the Melbourne Controlled Area is:

- within 10 per cent of the average fee charged within other jurisdictions (excluding South Australia);
- slightly lower than the total fee in New South Wales. However, tow truck operators in Victoria have a higher degree of certainty of obtaining a job because of the allocation system; and
- broadly in line with the total fee in Queensland.

**Table 2.11: Comparison of total fees under the example accident towing job**

<b>Fee</b>	<b>New South Wales</b>	<b>Victoria</b>	<b>Queensland</b>	<b>South Australia</b>
Base fee	\$264 (\$317 for non-business hours)	\$197 (\$264 for non-business hours)	\$293.80 for all towing jobs	\$320 (\$372 for non-business hours)
Distance fee	\$6.4 per KM after 10km	\$3.1 per KM after 8km	\$ 5.85 per KM after 50km	\$2.82 (\$3.84) per KM after 20km
Storage fee - covered location	\$19.8 per day after 3 days	\$15.1 per day	Fees are not regulated. Storage fees are incurred after 3 days	\$21 per day
Total fee- business hours	\$296	\$264	\$294	\$383
Total fee - after hours	\$355	\$331	\$294	\$435
<b>Average fee</b>	<b>\$326</b>	<b>\$298</b>	<b>\$294</b>	<b>\$409</b>

Finally, accident towing fees in South Australia are significantly higher than each of the other jurisdictions that we have investigated. The higher fee could be explained by:

- differences in the number of accident tows typically allocated per tow truck in South Australia compared to other jurisdictions;
- differences in the underlying cost structure for operators in South Australia compared to other jurisdictions;

<sup>18</sup> Based on our analysis, 57 per cent of accidents occur during 8am to 5pm in 2012. The proportion of accidents that occur in business hours will likely be significantly less than this once weekends and public holidays are taken into account and so a figure of 50 per cent has been used here.

- more limited opportunity for tow truck operators to supplement accident towing income by providing other non-regulated towing services; and
- a lack of reliable information upon which to determine regulated fees.

## 2.3. Competitive towing services

In addition to accident towing, tow truck operators often provide other services, including:

- trade towing (ie, general towing of vehicles that do not arise from violation of road rules);
- clearway towing (ie, towing of vehicles parked in clearways during restricted hours); and
- towing of impounded vehicles (ie, towing of abandoned and derelict vehicles).

These towing services are not regulated and so provide a competitive price for providing towing services, which are comparative to accident towing services.

### 2.3.1. Trade towing

Trade towing involves the provision of general towing of vehicles, such as the towing of vehicles that have broken down. Trade towing fees are not regulated because the trade towing market is considered to be competitive. Unlike accident towing, a customer can actively seek out quotations from multiple tow truck operators to obtain the most competitive price for the service required.

The cost of trade towing varies depending on the nature of the job. Important factors that influence the cost of a trade tow include:

- the type of vehicle being towed;
- the origin and destination of the tow;
- if the car is parked on the street or locked in a garage;
- the time of day for conducting the tow;
- the cost to use any toll roads; and
- if the keys to the vehicle are available.

Due to the lack of publicly available data, we have obtained indicative prices for trade towing services by making direct inquiries with a number of tow truck operators (17 in total) across Australia. The price range represents a trade tow for a passenger vehicle with a towing distance of approximately 10 to 20 kilometres within an urban area, assuming that the vehicle was readily accessible for towing purposes (and so equivalent to an accident tow without a salvage requirement)

Our results highlight that the fees charged for trade towing are significantly lower than the ‘regulated fee’ for a typical accident tow – Table 2.12. That said, this likely reflects the greater predictability of trade towing and it being a less time sensitive service, when compared to accident towing. These characteristics of trade towing services allows tow truck operators to conduct trade tows during ‘off-peak times’ when they are not otherwise allocated to an accident towing job, or during clearway times.

**Table 2.12: Indicative trade towing fees for a passenger vehicle within urban areas (10 to 20 km towing distance)<sup>19</sup>**

<b>Jurisdiction</b>	<b>Price range</b>
New South Wales	\$110 ~ \$180
Victoria	\$110 ~ \$190
Queensland	\$95 ~ \$150
South Australia	\$80 ~ \$120
Western Australia	\$120 ~ \$264
Tasmania	\$88 ~ \$150
Northern Territory	\$77 ~ \$99
Australian Capital Territory	\$70 ~ \$88

### **2.3.2. Clearway towing**

Clearway towing occurs when a vehicle is parked in a clearway (or freeway) during restricted hours. In Victoria, clearway towing is managed by:

- the City of Melbourne and City of Philip, which manages the clearways in each respective municipality; and
- VicRoads, which manages clearways in other areas.

Similar to Victoria, clearways in other jurisdictions are managed by the state road authority or the relevant local council.

In general, owners are required to pay a release fee that includes:

- the cost of towing (eg, cost of towing the vehicle);
- other administrative costs (eg, administrative fees incurred by the road manager and advertisement fees where relevant); and
- a penalty, to provide incentives to not park vehicles in a clearway.

The release fee in Melbourne ranges from \$322 (for clearways managed by the City of Melbourne and VicRoads) to \$340 (for clearways managed by the City of Philip) – Table 2.13. The release fee charged by VicRoads has remained at \$322 for the past few years.<sup>20</sup> The release fee charged by the City of Philip is expected to increase in line with CPI.<sup>21</sup> These release fees are inclusive of any associated storage costs.

<sup>19</sup> The timing and scope of this project did not allow us to conduct a comprehensive survey of trade towing fees across Australia, and so the reported fee ranges should be treated as indicative only.

<sup>20</sup> We have not been able to obtain historic information on release fees charged by the City of Melbourne.

<sup>21</sup> Page, 54, Towing Obstructing Vehicle and Vehicles from Clearways (readvertised), Contract No:1796.

Roads and Maritime Services (NSW) charges a fixed towing charge for vehicles towed from clearways. In 2013 the fee was \$180 inclusive of GST.

To provide additional insights on the likely underlying accident towing component within clearway vehicle release fees we have calculated an ‘implied’ towing fee by subtracting an estimate of associated administrative costs and storage fees from the release fee. The residual provides an allowance to cover the towing costs involved, plus an amount as a fine. As a consequence it provides a likely upper bound of the costs involved in towing from clearways.

Table 2.13 sets out our estimates of the implied towing fee for a number of road managers across Australia. The average implied towing fee with an assumed three days of storage was \$256, with an upper bound of \$338 and a lower bound of \$204.

**Table 2.13: Release fees for various road managers across Australia**

Road manager	Release fee <sup>22</sup>	Implied towing fee <sup>23</sup>	Storage fee (per day)	Implied towing fee with 3 days storage
City of Melbourne	\$322	\$180	-	\$249
City of Phillip	\$340	\$198	-	\$267
VicRoad (VIC)	\$322	\$180	-	\$249
City of Sydney	\$300	\$227	\$37	\$338
City of Brisbane	\$235	\$162	\$22	\$228
City of Adelaide	\$245	\$172	\$10.50	\$204
Average	\$294	\$187	\$23	\$256

### **2.3.3. Council impound towing fees**

In the Melbourne Controlled Area local councils are responsible for clearing and impounding vehicles that are either abandoned, derelict or otherwise causing obstruction. Each council within the Controlled Area charges a fee for this service, which is generally disclosed within each council’s annual budget. For our benchmarking exercise, data on the fees charged by each council for the release of vehicles from impound was collected. The total fee charged typically consists of the following components:

- a towing fee;

<sup>22</sup> Some Councils include storage fees within the release fees, while others charge an additional amount for storage per day.

<sup>23</sup> Estimated by subtracting an assumed administrative and storage cost from the total release fee. For those councils without a published storage cost, the average of the published storage costs that were publicly available was used. An administrative charge of \$73 was used, as this was the published average administrative charge for councils associated with impounded vehicles, which we believed provided a reasonable benchmark for this analysis.

- an administration fee;
- a storage fee; and
- a punitive or deterrent component.

Councils generally outsource the towing component to towing companies and pay a negotiated rate. Towing for the purposes of impounding is expected to be less time critical relative to accident or clearway towing and therefore is expected to attract a lower fee and be more in line with the fee for a general trade tow.

A number of councils provide information on the towing fee component of the impound charge – Table 2.14. The average towing fee associated with impounding for these councils was \$140 per tow, with a maximum charge of \$207 and a minimum charge of \$114 per tow. This fee is consistent with trade towing fees in Victoria.

**Table 2.14: Selected council towing fees summary**

<b>Council</b>	<b>Storage fee (per day)</b>	<b>Published towing fee</b>	<b>Total towing fee with 3 days storage</b>
Knox City Council	\$33 <sup>24</sup>	\$120	\$220
Nillumbik Shire Council	\$15	\$120	\$165
Darebin City Council	\$36	\$114	\$222
Manningham City Council	\$21	\$207	\$270
Average	\$26	\$140	\$219

To obtain further insights on indicative towing charges, we have used information on total impounded vehicle release fees from 15 councils combined with information on administrative<sup>25</sup> and storage fees to estimate an ‘implied’ towing fee – Table 2.15. This analysis results in an average implied towing fee of \$222 per tow, with a maximum of \$335 and a minimum of \$129 per tow.<sup>26</sup> The average implied towing fee for the bottom quartile is \$152 per tow.

<sup>24</sup> Knox City Council charges a flat storage fee of \$100 irrespective of the number of days a vehicle is in storage. We have estimated a value of \$33 per day assuming that a vehicle remains in storage on average for three days.

<sup>25</sup> We have assumed an administrative charge of \$73, which is based on the average of the published administrative charges for two councils, of \$80 and \$66 inclusive of GST.

<sup>26</sup> By estimating the implied towing fee as a residual, some of the implied fee might be attributable to a punitive charge imposed by councils, rather than reflective of the total cost of towing incurred by the council for an impounded vehicle. As a consequence, we expect that these estimates are towards an upper bound of the likely towing costs associated with vehicle impoundment.

Once an indicative allowance is made for three days of storage fees, the implied average towing fee plus storage averages \$295 inclusive of GST, with a maximum of \$418 and a minimum of \$201.

**Table 2.15: Council impound fees summary**

<b>Council</b>	<b>Release fee</b>	<b>Storage fee (per day)</b>	<b>Implied towing fee</b>	<b>Total implied towing fee with 3 days storage</b>
Bayside City Council	\$399		\$254	\$326
City of Stonnington	\$346		\$201	\$273
City of Casey	\$297	\$5.60	\$224	\$241
Moreland City Council	\$305		\$160	\$232
City of Borondara	\$385		\$240	\$312
City of Maribynong	\$388	\$34	\$315	\$418
Monee Valley City	\$480		\$335	\$407
Yarra City Council	\$337		\$192	\$264
Glen Eira Council	\$307	\$40	\$234	\$354
Yarra Ranges Shire Council	\$274		\$129	\$201
Hobsons Bay City Council	\$340	\$20	\$267	\$327
City of Whittlesea	\$287		\$142	\$214
Whitehorse City Council	\$325		\$180	\$252
City of Greater Dandenong	\$339		\$194	\$266
Kingston City Council	\$340	\$22	\$267	\$332
<b>Average</b>	<b>\$343</b>	<b>\$24</b>	<b>\$222</b>	<b>\$295</b>

## 2.4. Heavy vehicle pilot and escort services

Pilots and vehicle escorts are required to oversee the movement of over-size loads carried by heavy vehicles on public roads. To maintain safety and assist the driver, other vehicles are required to accompany the over-size load to warn and stop traffic as required. The two services, pilots and escorts, differ in the circumstances in which they are required. Pilots are required for the movement of most over-sized loads while vehicle escorts are only required

for very large loads and under certain road conditions or times. These services have a broadly similar cost base to accident towing, ie, labour, fuel, vehicle maintenance and certification, and therefore provide a good benchmark for prices and price adjustments for accident towing fees.

Pilot services are provided by traffic management companies and tend to charge on a per km or per hour basis. Pilot services are unregulated and prices are set by the market. Certification is required to be a pilot and the pilot vehicle is required to meet a number of specifications, for example warning lights and signage. The cost base consists of labour, fuel, vehicle registration and maintenance costs and certification costs, broadly similar to accident towing.

Depending on the jurisdiction vehicle escorts tend to be provided by either the local traffic authority or local police. Of most concern when comparing these fees to accident towing fees are those jurisdictions where the traffic authority sets the price, rather than price changes moving with changes in police rates, as these are likely to be more reflective of the specific cost base for the service. Two jurisdictions where this occurs are Victoria and Western Australia.

In Western Australia, Main Roads Western Australia provides escort services for over-size loads. Escort fees from 1st January 2013 are based on a daily rate of \$1331 (incl. GST). For short trips requiring an escort for less than 4 hours a minimum fee of \$666 (incl. GST) applies. The rate therefore equates to approximately \$165 per hour (incl. GST).

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

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

## 2.5. Conclusions

The estimated total fee for accident towing service in the Melbourne Controlled Area are broadly in line with most regulated accident towing fees in other jurisdictions. In addition, the fees are also broadly similar to those charged for other relevant services. Notably, the average total estimated fee in the Melbourne Controlled Area:

- is within 10 per cent of the average total estimated fee charged for accident towing within other jurisdictions (excluding South Australia);
- is significantly higher than trade towing fees and the actual fees from council impound towing. However, this is likely explained by the uncertainty and time sensitivity of accident towing services when compared to trade towing and other more competitive towing services;
- is at the mid-range of the implied fees from council impound towing. However, the implied fee likely includes a punitive component, which would result in it being an over-estimate of the actual towing fees.

- is between 12 and 20 per cent higher than the estimated fee for clearway towing in Victoria. A lower fee for clearway towing likely reflects
  - the shorter towing distance to holding yard because most clearways are within 10 kilometres of the Melbourne centre;
  - the condition of the vehicle to be towed; and
  - the defined time for clearway jobs.
- is 46 per cent higher and 12 per cent lower when compared to total clearway fees in other jurisdictions. This likely reflects differences in costs across other jurisdictions and the higher estimates likely include a punitive component.
- in line with the base fee of \$191 charged by VicRoads to provide heavy vehicle escort services.<sup>27</sup>

**Table 2.16: Comparison of the current fee in the Melbourne Controlled Area with other relevant benchmarks**

<b>Service</b>	<b>Fee estimate (excluding storage)</b>	<b>Fee estimate (including 3 days of storage)</b>
Accident towing fees - VIC	\$252	\$298
Accident towing fees - NSW	\$266	\$326
Accident towing fees – QLD	\$238 <sup>28</sup>	\$294
Accident towing fees - SA	\$346	\$409
Clearway towing – VIC	\$180-\$198	\$249-\$267
Clearway towing – other jurisdictions	\$162-\$227	\$204-\$338
Council impound towing – actual fees	\$114-\$207	\$165-\$270
Council impound towing – implied fees	\$129-\$335	\$201-\$418
Trade towing – VIC*	\$110 - \$190	-
Trade towing – other jurisdictions	\$70 – \$264	-
Heavy vehicle pilot services – VIC	\$191 per hour	-

While the regulated fees in the Melbourne Controlled Area are broadly in line with other jurisdictions, with the exception of South Australia, there are several reasons that can explain differences in the observed fees between jurisdictions, including differences in:

<sup>27</sup> This assumes that the typical job involves 30 minutes of work time at the scene and an additional 30 minutes to tow the vehicle back to the depot and stored in the yard.

<sup>28</sup> Based on an assumed storage fee reflecting the average storage fees of other jurisdictions.

- the cost structure for the industry between jurisdictions;
- the number of accident towing jobs per tow truck in each jurisdiction;
- the number of accident towing trucks and the size of industry;
- the opportunity for tow truck operators to supplement accident towing revenue by providing other non-regulated towing services;
- the regulatory arrangements;
- the approach to price setting.

These differences mean that some variation in regulated fees across jurisdictions is expected. As a consequence, comparisons between regulated fees in other jurisdictions should only be used as one of a number of benchmarks for assessing regulated accident towing and storage fees in the Melbourne Controlled Area.

In our opinion, information on fees for comparative services provided in a more competitive environment provide a better benchmark for assessing regulated accident towing and storage fees.

Clearway towing appears to be the best benchmark for accident towing because of the time sensitive nature of the job and services are provided competitively. That said, clearway towing services do not involve any salvage costs and the vehicle is expected to be in better condition relative to an accident tow and so is likely to be easier to tow. In addition, tow truck operators have more certainty about the timing and location of clearways jobs when compared to accident towing, which suggests that accident towing fees might reasonably be higher, reflecting the need to be available at any time to perform an accident towing job.

### 3. An Annual Adjustment Mechanism for Accident Towing Fees

This chapter considers a number of alternative approaches to the annual adjustment of accident towing fees. Importantly, any adjustment mechanism should:

- be objective, clear and transparent;
- be based on a metric that is publicly available; and
- track as close as possible to the underlying rate of change in underlying costs for providing accident towing and storage services.

#### 3.1. General concepts

Annual adjustment mechanisms are used as a means to update regulated fees and charges to account for changes in underlying input costs for the provision of a regulated service. This is to ensure that a business operating the regulated service continues to maintain a reasonable return to any investments made to provide the regulated service.

In developing an adjustment mechanism consideration should be given to:

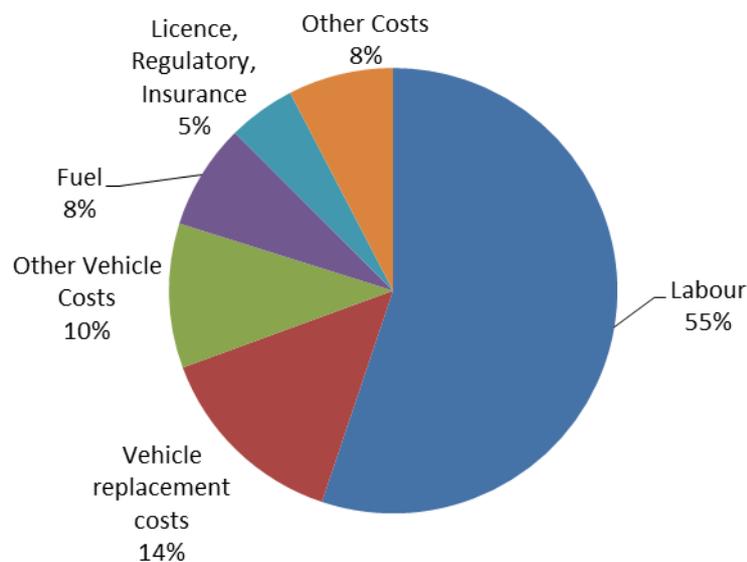
- those factors that will likely influence the underlying costs of providing the regulated service and which are outside of the control of an accident towing provider;
- identifying metrics that change at the same or a similar rate to the underlying input prices for providing the regulated service; and
- opportunities for the business to achieve productivity improvements to offset part of any increase in input costs over time.

For accident towing services, the key elements of the cost structure include (in order of importance):

- labour;
- vehicle replacement costs;
- other vehicle costs including financing, repairs, tyres, etc; and
- fuel.

At the 2009 determination, these costs represented almost 88 per cent of the total cost base – Figure 3.1.

**Figure 3.1: Breakdown of costs for providing accident towing and storage services**



Fuel costs are likely to be influenced by the extent of congestion on roads in the Melbourne controlled area. In addition, labour and vehicle replacement costs are likely to be influenced by improvements in the deployment of accident towing vehicles within a licensed zone, and so the extent to which licence response time conditions can be met by fewer drivers and vehicles.

In addition to factors influencing inputs, there are also changes in underlying input costs arising from changes in the price of those inputs. These changes are typically adjusted through input price indexes that lead to changes in output prices.

### **3.1. Current approach to annual adjustment**

Currently, accident towing fees are adjusted annually by the rate of change in the CPI-X, where:

- CPI is measured as the rate of change in the Melbourne transport consumer price index as published by the Australian Bureau of Statistics;<sup>29</sup> and
- X is an annual productivity adjustment, currently set at 0.5 per cent.

To address concerns that the Melbourne transport CPI in some years might be negative, the Commission recommended adjusting fees by the greater of zero or the rate of change in the Melbourne transport CPI. In those years where a zero is used, there would be no change in fees until the CPI index exceeded the level it was at prior to the imposition of a zero per cent price change.

The Commission also recommended that adjustments be made effective on the 1 July each year, based on the March quarter of the CPI index. The annual adjustment is applied equally to all regulated accident towing and storage fees.

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<sup>29</sup> Australian Bureau of Statistics, *Consumer Price Index, Australia*, Catalogue No. 6401.0

## 3.2. Options for annual adjustment

In line with the Commission's 2009 decision, we believe that it is appropriate for accident towing fees to be adjusted by:

- a metric or combination of metrics that reflect the rate of change in input prices for providing accident towing and storage services; and
- a measure of the change in productivity for the provision of accident towing and storage services.

The remainder of this section sets out the options that we have considered for these two sources of adjustment.

### 3.2.1. *Measuring changes in input prices*

There are a number of options that can be used to reflect changes in underlying input prices for providing accident towing and storage services. These include:

- general price indices including the consumer price index (CPI) or producer price index (PPI); and
- specific input price indices, including a fuel price index and wage rate index.

The remainder of this section describes the options within each of these two categories of price indices.

#### *General price indices*

The CPI is the most commonly used index for measuring changes in the general level of prices within the economy. It is measured by collecting information on the purchase prices of a basket of goods and services and calculating how the total cost of the basket changes each quarter. Specifically it is measured by:<sup>30</sup>

- subdividing total expenditure into individual items for which price samples can be selected;
- collecting price data on each item;
- estimating price movements for individual items; and
- calculating the current period cost of the basket of goods.

To understand what drives the underlying changes in the CPI therefore requires consideration of the underlying goods and services within the basket of goods.

The basket of goods for the transport CPI includes:

- private motoring (which represents 94.5 per cent of the CPI transport index), such as the purchase and/or lease costs of new vehicles or the transfer costs of older vehicles; spare parts; fuel; maintenance and repair; and

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<sup>30</sup> Section 4, Australian Bureau of Statistics, (2011), *A Guide to the Consumer Price Index: 16<sup>th</sup> Series*, Catalogue No. 6440.0.

- urban transport fares (which represents 5.5 per cent of the CPI transport index), for bus, train ferry, tram and taxi fares.

The general CPI encompasses the transport CPI, but also includes:

- food, alcohol and tobacco;
- clothing and footwear;
- housing, furnishings and household equipment and services;
- health related products and medical expenses;
- communication;
- recreation and culture;
- education; and
- insurance and financial services.

Table 3.1 compares the CPI for Melbourne transport with the CPI for Melbourne all industries.

**Table 3.1: Comparison of consumer price indices, Melbourne, 2008 to 2012**

Period	CPI, Melbourne Transport	CPI, Melbourne
2008 (March quarter)	6.9%	4.4%
2009 (March quarter)	-5.0%	2.1%
2010 (March quarter)	3.6%	2.8%
2011 (March quarter)	3.2%	3.5%
2012 (March quarter)	1.7%	1.4%
5 year average annual compound rate of change	2.0%	2.8%

The recent history of changes in the rate of change of the March on March quarterly CPI for Melbourne suggests that the Transport CPI is significantly more volatile to the all industry CPI. In addition, there has also been higher growth in the all industries CPI (2.8 per cent) compared with the transport CPI (2.0 per cent).

Relevant to considering an appropriate price index to apply to accident towing fees, the CPI measures *final output* prices and also includes goods that are imported to Australia. As a consequence, the CPI may not reflect changes in the input costs for accident towing services because:

- changes in the final outputs might differ from general input price changes; and
- changes in prices for the basket of goods used to measure the CPI may not be reflective of changes in the general prices of inputs used in accident towing services.

In short, to the extent that the basket of goods within the all industry and transport measures of CPI differ from the inputs used to provide accident towing services, then the CPI will not

totally reflect underlying changes in the cost to provide accident towing services over time. That said, whether these indices are a good ‘proxy’ for changes in input costs for accident towing, (ie, move in a similar way to the CPI indices) is a factual question. Unfortunately, in the absence of good information on underlying accident towing costs such a comparison is difficult in practice to make.

An alternative to CPI measures is to use a producer price index (PPI). The PPI measures either:<sup>31</sup>

- producer output prices, ie, those amounts received by the producer exclusive of any taxes on products and transport and trade margins; or
- producer input prices, ie, the amount paid by the producer for inputs to production inclusive of any non-deductible taxes on products and transport and trade margins.

As a consequence, an output PPI will differ from the consumer price index given taxes, transport and trade margins.

One potential advantage of the PPI compared with a transport CPI is that the ABS produces estimates for the road freight transport industry classification, within which accident towing is included. As a consequence, this removes any changes in the index driven by changes in those industries that likely have very different cost structures to the accident towing industry.

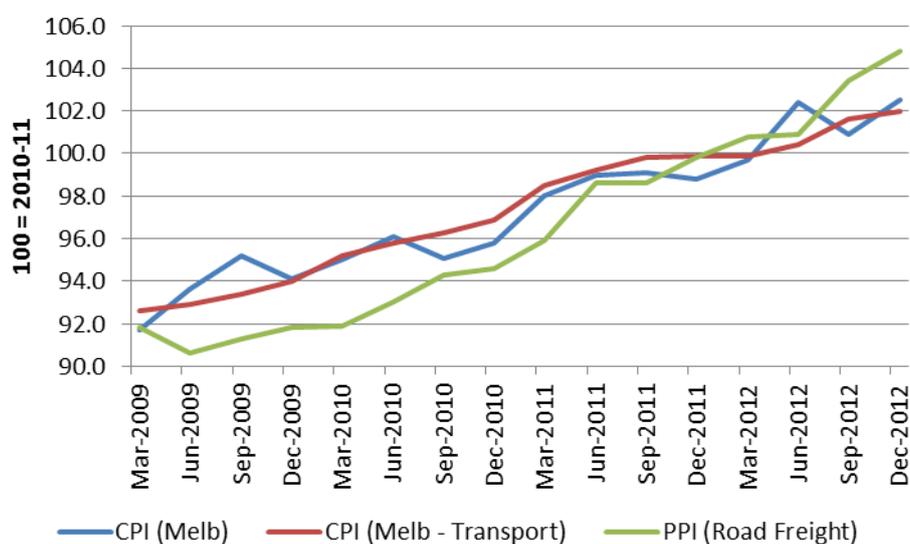
Table 3.2 sets out the rate of change in the Australian PPI for road freight transport. Figure 3.2 compares the indices of CPI Melbourne, CPI Transport Melbourne and PPI road freight transport.

**Table 3.2: Producer price index, road freight transport, 2008 to 2012**

Period	PPI, Road Freight Transport
2008 (March quarter)	5.2%
2009 (March quarter)	5.4%
2010 (March quarter)	0.1%
2011 (March quarter)	4.4%
2012 (March quarter)	5.1%
5 year average annual compound rate of change	4.0%

<sup>31</sup> Page 22, Australian Bureau of Statistics, (2013), *Producer Price Indexes: December Quarter 2012*, Catalogue No. 6427.0.

**Figure 3.2: Comparison of CPI and PPI indices, March 2009 to December 2012**



Comparing the CPI and PPI indices highlights that road freight output prices have been increasing at a higher rate than transport consumer prices and general consumer prices.

### *Specific input price indices*

As an alternative to general price indices, a specific or composite index of input price indices could also be used to annual adjust accident towing and storage fees. Such an index could reflect either:

- the actual cost structure of accident towing industry; or
- the key elements of the cost base of the accident towing industry.

Candidate input price indices include:

- wage price index, Victoria;
- wage price index, Transport, Postal and Warehousing; and
- automotive fuel price index, Melbourne.

The wage price index is calculated by the ABS in a similar manner to the consumer price index. Data is collected on wages for a representative sample of employee jobs within broad industry groups and across states and territories, and the index represents the change in wages between each quarter.

The automotive fuel price index is developed from information used to estimate the consumer price index and so represents the change in automotive fuel prices between each quarter.

Table 3.3 provides a comparison of the wage price and automotive fuel price indices for the period 2008 to 2012.

**Table 3.3: Comparison of wage price and automotive fuel price indices, 2008 to 2012**

Period	Wage Price Index (Victoria)	Wage Price Index (Transport)	Automotive Fuel Price Index (Victoria)
2008 (March quarter)	3.8%	4.1%	19.6%
2009 (March quarter)	4.0%	4.7%	-16.2%
2010 (March quarter)	2.7%	3.4%	7.4%
2011 (March quarter)	3.9%	3.6%	8.7%
2012 (March quarter)	3.4%	3.4%	5.3%
5 year average annual compound rate of change	3.5%	3.8%	4.3%

In general, the five year average annual compound rate of change of each of these indices is broadly similar, although the automotive fuel price index has significant year-on-year variations. The wage price index suggests that wages for transport employees has been increasing at a marginally higher rate than for employees in general across Australia.

In the absence of sufficiently robust information on the cost structure of the accident towing industry, a composite price index is unlikely to perform any better than a general price index (like CPI or PPI). Indeed, arguably a general price index for an industry sector (eg, the PPI for road freight transport) might perform better given that the observed rate of change in output prices is objective and so not influenced by the choice of weights as would be the case in a composite price index.

### **3.2.2. Measuring productivity improvements**

Implicit within measures of changes in output prices across the economy is an underlying improvement in the productivity of providing the good or service.

For example, if the price of the inputs used to make the basket of goods and services in the consumer price index increased by say 3 per cent, then the consumer price index would increase by 3 per cent in the absence of any productivity growth. However, if there is positive productivity growth then the increase in the consumer price index if input prices rose by 3 per cent, would be less than 3 per cent, say 2 per cent. Implicit within the measure of consumer price index is therefore some amount of productivity improvement.

The particular choice of the price index to adjust accident towing and storage fees will therefore influence how a productivity adjustment should be included in the measure. For example:

- if CPI for Melbourne is used to adjust output prices, then if productivity growth in accident towing was equal to productivity growth in the general Melbourne economy, then there would be no need to include an additional adjustment to the CPI to account for accident towing productivity improvements; and

- if CPI for the transport industry is used, then the relevant comparison to determine whether there is a need to include an additional productivity adjustment is the difference between productivity growth in the wider transport industry and productivity growth in the accident towing industry; and
- if an output PPI for road freight transport is used, then any productivity adjustment should reflect the change in productivity for the accident towing industry relative to the road freight transport industry.

Finally, if an input price index is used then the relevant productivity adjustment should be the entire rate of change in productivity for the accident towing industry. This is because any input price index does not itself take into account improvements in productivity that might arise in the industry.

To inform the Commission's consideration of alternative approaches to adjusting for productivity improvements in the accident towing industry, the remainder of this section sets out the options for approximating the productivity change both for the economy as a whole and for the accident towing industry. Unfortunately, we have been unable to identify benchmark information on productivity improvements in the road freight transport industry.

### *Measures of multifactor productivity*

A commonly used measure of productivity for the economy as a whole and for a number of select industries is multifactor productivity. Multifactor productivity is estimated annually by the ABS using information on outputs, inputs and prices as developed for Australia's national accounts.<sup>32</sup> In simple terms, it measures the rate of change of outputs arising from the changes in the combination of a number of inputs. The more commonly used term, total factor productivity, is essentially where all inputs (ie, the total) and is used as the basis for measuring the change in outputs.

In addition to these measures, the ABS also estimates multifactor productivity for a number of industries within the national accounts. Accident towing falls within Division I, the Transport, Postal and Warehousing division. This division includes, amongst other related industries: road, rail, water and air, freight and passenger transport, postal and courier pickup services, scenic and sightseeing transport and pipeline transport (ie, oil and gas), and warehousing and storage services.<sup>33</sup> Accident towing falls in the national accounts within road freight services.

Table 3.4 compares the annual growth rate of MFP for all industries with estimates for the transport, postal and warehousing division.

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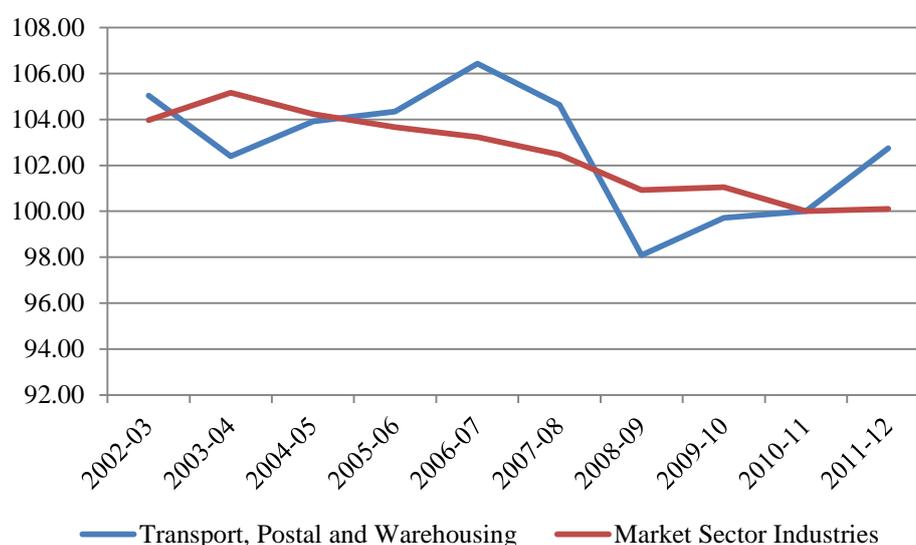
<sup>32</sup> Australian Bureau of Statistics, (2013), *Estimates of Industry Multifactor Productivity, 2011-12*, Catalogue No. 5260.0.55.002.

<sup>33</sup> Australian Bureau of Statistics, (2006), *Australian and New Zealand Standard Industry Classification (ANZSIC)*, Catalogue No. 1292.0.

**Table 3.4: Comparison of multifactor productivity, all industries and transport, postal and warehousing division**

	Market Sector	Transport, Postal and Warehousing
2007-08	-0.7%	-1.7%
2008-09	-1.5%	-6.3%
2009-10	0.1%	1.7%
2010-11	-1.0%	0.3%
2011-12	0.1%	2.8%
5 year average annual compound rate of change	-0.6%	-0.7%
3 year average annual compound rate of change	-0.3%	1.6%

**Figure 3.3: Multifactor productivity – transport, postal and warehousing division**



While the 5 year average annual rate of change in multifactor productivity is broadly similar between the market sector and the transport, postal and warehousing division, the result is different when the analysis is undertaken for the past three years. Over this more recent period, MFP has improved by 1.6 per cent compared with a decline of 0.3 per cent for the market sector. This suggests that there has been an improvement in productivity across the transport, postal and warehousing sectors over the last three years compared to the economy as a whole.

There are likely to be many factors influencing the observed changes in multifactor productivity for the transport, postal and warehousing that might not be present in a subset of

the division (ie, accident towing). Caution is therefore required in interpolating these results as a measure of productivity improvement in the accident towing industry. That said, it does suggest that for other similar industries involving transport productivity improvements have been achieved.

### *Partial measures of productivity for accident towing*

To provide some information on how productivity may have changed in the accident towing industry in Victoria, we have estimated total accident towing fees revenue to allow us to consider the change in:<sup>34</sup>

- accident towing revenue per accident tow;
- accident towing revenue per licence; and
- accident towing revenue per vehicle.

Table 3.5 provides a snap shot comparison between 2008 and 2012.

**Table 3.5: Snap shot of the accident towing industry, 2008 and 2012**

	2008	2012	Annualised percentage change
Total No. of accident towing trucks	222	252	3.3%
Total No. of allocations of accident tows	41,508	45,312	2.2%
Total No. of allocations per truck	187	180	-1.0%
Total No. of licences	421	421	0.0%
Accident towing revenue			
- per allocated tow	\$285	\$322	3.2%
- per licence	\$28,081	\$34,689	5.4%
- per truck	\$53,354	\$57,953	2.1%

For this snapshot analysis we have assumed 1.9 trucks per licence as estimated by VicRoads as part of the 2009-10 review. The values were assumed to apply to 2008 in line with the time period for the survey conducted for the review. The total number of accident towing trucks (ie, 222 trucks) was calculated by simply dividing the total number of licences (421) by 1.9 licences per truck.

<sup>34</sup> If the underlying cost to provide accident towing services has not changed in real terms, then any increase (decrease) in revenue per licence or per vehicle will reflect an increase (decrease) in productivity, once the effect of real increases in regulated fees is taken into account.

The revenue per allocated tow was based on an ‘average’ tow as outlined in Section 2.2.4. Revenue per licence and per truck was then calculated based on the number of allocations per licence and per truck respectively.

In addition, we have:

- used CPI (Melbourne Transport) as the cost deflator, which means that any resultant productivity inferences are relative to implied productivity improvements for the Melbourne transport sub-sector of the economy; and
- assumed that the underlying cost to provide accident towing services has increased in line with CPI (Melbourne Transport), which means that any observed changes in revenue per tow, licence or truck can be interpreted as a decrease or increase in productivity;

Finally, since regulated fees, or revenue, have historically included a productivity adjustment, for the revenue per input measures, zero productivity on a revenue basis should be interpreted as achieving the productivity adjustment and so any productivity measure is relative to the productivity adjustment that has been historically applied, ie, 0.5 per cent.

Between 2008 and 2012 the total number of accident towing trucks has increased, driven by an increase in the number of accident tows, while the number of licences on offer has remained constant. By implication the number of licences per vehicle has fallen from 1.9 to 1.67.<sup>35</sup> The net result is a drop in the number allocations per truck from 187 to 180. Assuming that the effort required for each accident tow has not changed substantially between 2008 and 2012, then this would suggest that the productivity of accident towing vehicles has decreased between 2008 and 2012 (ie, each truck is conducting less accident tows each year).

When using revenue based measures to estimate productivity improvements, regulated fees must be used to determine revenue per tow. To the extent that any real changes in underlying costs are reflected in real changes in regulated fees, then any observed increase in revenue per tow will not reflect improvements in underlying productivity.

The observed increase in revenue per licence of 5.4 per cent therefore reflects in part an increase in underlying regulated fees plus an increase in the total number of accident tows allocated per licence.

The change in observed revenue per truck will therefore reflect:

- an increase in regulated fees; and
- a decrease in number of accident tows per truck, which is influenced by the entry of new accident towing trucks compared to the increase in accident tows.

If we adjust revenue per tow to account for the increase in regulated fees then revenue per truck between 2008 and 2012 is observed to decrease by approximately 1.0 per cent. This is consistent with the decline in productivity resulting from each accident towing truck undertaking less accident tows in 2012 compared with 2008.

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<sup>35</sup> Source: Data provided by VicRoads.

That said, this result is highly sensitive to the assumption about the number of licences per truck in 2008. At the 2009/10 review there were a number of alternative estimates of licences per truck. Specifically:

- VicRoads estimated that there were 1.9 licences per truck;
- an estimate of 1.7 licences per truck was derived from an industry survey; and
- the Commission assumed 2.0 licences per truck.

If the number of licences per truck in 2008 was 1.7, then the resultant accident towing industry productivity would have increased on average by 1.8 per cent each year since 2008 – Table 3.6. If the implied number of licences per truck was 2.0 in 2008, then accident towing industry productivity would have decreased on average by 2.3 per cent each year since 2008.

**Table 3.6: Sensitivity of changes in revenue per truck to assumed number of licences per truck in 2008**

Licences per truck, 2008	Average annual change in Revenue per Truck (actual fees)	Estimated annual change in accident towing productivity <sup>36</sup>
1.7	5.0%	1.8%
1.8	3.5%	0.3%
1.9	2.1%	-1.0%
2.0	0.8%	-2.3%

### 3.3. Conclusions

In our opinion, in the absence of sufficiently robust data to allow for the development of a bespoke input cost index for the accident towing industry, there is merit in adjusting accident towing and storage fees in line with a general price inflator adjusted by an estimate of anticipated future productivity improvements.

In our opinion, the two best options for this adjustment are:

- the rate of change in the March quarter CPI (transport Melbourne), adjusted by an estimate of the difference between productivity for transport Melbourne and productivity for the accident towing industry; or
- the rate of change in the March quarter PPI for road freight transport, adjusted by an estimate of the difference in productivity for the accident towing industry and the road freight industry.

<sup>36</sup> These figures eliminate the influence of the increase in revenue resulting from the shift in 2010 to adjusting accident towing and storage fees by the rate of change in CPI-X, where CPI is the rate of change in the CPI (Melbourne Transport) and X is assumed to be 0.5 per cent. As a consequence they should be interpreted as the change in productivity for the accident towing industry relative to the CPI (Melbourne Transport).

Finally, in choosing between using the CPI (transport Melbourne) or the PPI for road freight, consideration needs to be given to which is likely to be more closely related to the costs of providing accident towing services in Melbourne. In our opinion, maintaining the use of transport Melbourne ensures that specific changes in fuel and labour prices in Melbourne will be properly incorporated within the adjustment, while road freight PPI also incorporates possible changes in fuel and labour rates in other parts of Australia.

In our opinion, a reasonable estimate of the productivity for transport Melbourne and the road freight industry can be obtained by observing changes in multifactor productivity for the transport, postal and warehousing industry division. Applying a three year average, suggests that productivity has improved for this industry by about 1.6 per cent over the last three years.

However, our indicators of productivity improvement in the accident towing industry suggest that productivity has either improved by as much as 1.8 per cent each year, or worsened by 2.3 per cent each year on average between 2008 and 2012, with the likely outcome being a modest decrease in productivity.

This would suggest that an 'X-factor' adjustment to a CPI or PPI ranging between +2.3 per cent (ie, an upward adjustment of the index) and -1.8 per cent (ie, a downward adjustment of the index) would be reasonable.

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