

VACC - Proposed Towing & Storage Fees

Comments on:
Essential Services Commission “Review of Accident
Towing and Storage Fees: Draft Report”, March 2010

Prepared for Victorian Automobile Chamber of
Commerce

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EXECUTIVE SUMMARY

The following discussion contains a review of key commercial and accounting elements of the Essential Services Commission, Review of Accident Towing and Storage: Draft Report March 2010. This report has been prepared for the Victorian Automobile Chamber of Commerce to assist in their response to the draft Report.

The significant issues and comments raised in this report include:

- How has the survey cost data that was based on 2007 /2008 costs been uplifted to 1 July 2010 when the proposed fees will apply?
- How has GST been treated in moving from a GST exclusive cost to a GST inclusive recommended fee?
- Applying percentage based on averaging old and more current data has significantly reduced the percentage of total costs attributable to accident towing.
- Adjusting for this and one other assumption raises the cost per tow from \$275 to approximately \$400.
- There is no allowance for profit in the calculations.
- Elements of the comparison to fees in other jurisdictions are obviously flawed.
- Indexation should account for the large percentage of total costs that are labour based.
- As there is no satisfactory quantified evidence for a productivity adjustment, consideration should be deferred to allow time for that research to be done.
- Recommendations with respect to a regulated salvage fee do not account for price movements since 2008, nor GST.
- The ability to pass on additional costs of heavy towing vehicles or cranes that may be associated with salvage should be clarified.

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BACKGROUND

Towing from the scene of an accident is regulated and the fees that are charged for accident towing and related storage are determined by the Minister of Roads and Ports ('the Minister'). The Essential Services Commission ('ESC') provides advice to the Minister in these matters. Following a reference from the Minister in September 2009, ESC has prepared a draft report ('the report') in two volumes and invited comments.

The towing and related fees recommended are set out in the table below.

Fee	Incl GST	Excl GST
<i>Towing fees:</i>		
Base fee (incl first 8 km)	\$180.25	\$163.86
Additional per km > 8km	\$2.85	\$2.59
After Hours surcharge	\$61.60	\$56.00
<i>Salvage fees</i>		
Base salvage fee	\$39.50	\$35.91
After Hours salvage surcharge	\$51.70	\$47.00
<i>Storage fees per day:</i>		
Car – under cover	\$13.80	\$12.55
Car – locked yard	\$9.20	\$8.36
Motor Cycle – under cover	\$4.65	\$4.23
Motor cycle – locked yard	\$3.00	\$2.73

The Towing Operators Division of the Victorian Automobile Chamber of Commerce ('VACC') has requested Pitcher Partners to comment on commercial and accounting issues in the report.

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PROPOSED FEE INCREASE

A key recommendation of ESC is that all components of regulated towing and storage fees should be increased by 7% from 1 July 2010.

The last across the board increase in towing and storage fees was in 2003. In 2006 there was an extension to the times during which the higher after hours fee was chargeable. ESC calculated that this would add approximately 7.5% to revenue.

Although supplemented by other considerations, the base reasoning for the level of increase is:

1. the calculation of a representative one truck cost,
2. an allocation of the portion of that cost that is attributable to accident towing,
3. reducing the result to a cost per tow, and
4. a comparison of that attributable cost to notional revenue.

Representative Cost

A detailed cost survey was undertaken by PricewaterhouseCoopers ('PWC') for ESC and calculations from this survey have been used to derive the one truck representative cost. We have some queries and concerns with respect to the manner in which the survey material has been used to determine the proposed fees. We note that Table 1 on page 9 of the report provides cost estimates that were based on the survey.

The PWC survey requested cost data for 2007/2008. It is not clear whether or how that historical data has been escalated to bring it up to 2009 / 2010 prices. Further, the recommended fees are proposed to apply from 1 July 2010 and be next revised (by indexation) from 1 July 2011. We suggest that VACC should request transparency of the process by which costs have been escalated to account for the time gap between data gathering and the next revision of fees.

Costs gathered in such a cost survey would not be expected to include GST. The recommended fees do include GST, so it is important to understand that the costs have been correctly adjusted before determining GST inclusive fees. Transparency should be requested, particularly as a basic error in this regard appears to have been made in the inter jurisdictional comparison (see 'Comparative Market Prices' below).

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Attributable Cost

Table 1 of the report sets out a representative cost for operating one truck and then derives the proportion of that total cost attributable to accident towing. The key assumption in the calculations is that 39% of the total costs are attributable to accident towing. However, the most recent survey data indicated that 54% of the costs were attributable to accident towing¹. The 39% appears to have been derived by averaging the previously reported percentage from 2005 and the more current data.

Given the changes in the market environment, particularly the deregulation of trade towing, it does not appear valid to prefer an averaged historical figure to the more recent survey data which was validated by PWC.

Cost per tow

The next step in the process is to divide the total costs by an assumed 200 tows per truck per annum. This is based on 100 tows per allocation and 2 allocations per truck. While the survey respondent had a ratio of 1.7:1 allocation per truck, the average across the industry is 1.9:1². Literally applying these would estimate 190 allocations per truck.

The estimate of 2:1 is regarded by ESC as being more reflective of the industry in the regulated area. This rounding up to 200 tows per annum per truck deflates the total recommended by 5%.

Sensitivity

The importance of the attribution percentage and the rounding of tows per annum is illustrated in the sensitivity table below:

	Assumption	Per Survey or data
Total Costs of operation - 1 truck	141,268	141,268
Percentage allocated to accident towing	39%	54%
Cost attributable to accident towing	55,095	76,285
Allocations per truck	2	1.9
Average tows per allocation per annum	100	100
Average tows per truck (calculated)	200	190
Attributable cost per tow	\$ 275	\$ 401

¹ Refer Section 4.2 of Volume II of the report.

² Refer Section 4.3 of Volume II of the report.

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Revenue and profit

Having derived a per tow cost of \$275, the report derives an approximate revenue per tow of \$257, leading to the conclusion that fees should be increased by 7% being the amount required to equate estimated costs and revenue.

The key assumptions in the revenue estimate are:

- Average tow distance of 15 kilometres;
- 54% of tows attract the after hours rate;

Finally, we must point out that even if all the assumptions applied are correct, the recommended fees and cost would equate. That is, there is no allowance for profit. To move from a cost build up to derive required revenue without adding on a profit element is not commercial.

Each of the major assumptions discussed compared to alternative data available, has the effect of deflating the fee proposed.

Comparative Market Prices

The report compares the proposed fees to other market prices and other jurisdictions.

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

More concerning however is a comparison to the regulated NSW fee that is obviously flawed.

In table 4.6 of Volume II of the report it is clear that the NSW fees are GST exclusive³ and they are being compared to the proposed Victorian fee that is GST inclusive. Correcting that table would show that the proposed Victorian fee was 13% below the NSW fee which is the lowest comparison given from any jurisdiction.

There is also a 12 month indexation gap in that the NSW fee applied from 1 July 2009 whereas the proposed Victorian fee is to apply from 1 July 2010.

Table 4.7 is similarly flawed. It compounds the error by comparing the proposed Victorian fee revenue estimate, including an allowance for after hours work and GST, to the NSW figure which has no allowance for after hours work, and no GST.

³ Summary of Maximum Charges for Towing Salvage and Storage of Motor Vehicles, RTA, NSW

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If we assume that the after hours proportion of work is the same in both states, a corrected comparison would be:

NSW – Fee per table 4.6	\$248.90
<i>Plus</i> After hours allowance of 20% on 54% of tows	<u>\$ 26.88</u>
	\$275.78
<i>Plus</i> GST	<u>\$ 27.58</u>
	<u>\$303.36 compared to \$275.00</u>

Thus, instead of being 9% below the Victorian proposed fee, the NSW fee, as at 1 July 2009, is 10% above the proposed Victorian rates which are to apply from 1 July 2010.

Movement in CPI

The report also states that the proposed movement is supported by reference to the CPI (Melbourne Transportation Index) that increased by 6.7% between December 2005 and December 2009.

Indexation is discussed more fully below. At this point we note that 55% of the representative towing costs are labour related. From November 2005 through November 2009, Average Weekly Earnings (trend, full time, ordinary time earnings, persons, Victoria⁴) increased by 18.5%.

⁴ Australian Bureau of Statistics reference series ID A2828148L.

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PROCESS FOR DEALING WITH FUTURE FEE INCREASES

The draft report recommends that fees should be automatically varied on 1 July annually. The proposed basis of the variation is movements in the CPI (Melbourne Transportation Index) less a 0.5% per annum productivity adjustment. It further recommends that a more detailed review should be carried out in 4 years time and that steps be taken to improve the data available for that review.

The Proposed Index

Considerations commonly taken into account for indexation of contract prices or regulated fees are:

- That the index should be from an independent source;
- That the process, source and application of the index, should be transparent;
- As far as possible the index bases should be selected to produce neither windfall gains nor losses;
- Indexation should not be too complex or administratively burdensome.

ESC recommends the CPI (Melbourne Transportation Index) be used to index fees annually. Because 55% of the 'Representative Towing Costs' are estimated to be labour based we consider there is strong merit in creating an index that moves as to 55% by a labour index, say Average Weekly Earnings, and as to 45% by the CPI measure. This is a straight forward calculation and would more closely represent the actual cost movements of operators.

The Productivity Adjustment

ESC recommends that any indexation adjustment should be reduced by a productivity adjustment of 0.5%. However the basis of this figure is not clear.

We note that in the 2005 review the ESC commented:

The Commission is of the view that there is no need to adjust regulated accident towing and storage fees for productivity improvements in order for consumers to share any efficiency gains, as is the case in many other regulated industries. This is because accident towing operators do not compete with other industries to provide their service and there is no scope for expanding output due to the operation of the accident allocation system and regulatory restrictions on the location of licences. As a result, there is no reason to expect that productivity gains will be greater in this industry than in the broader economy so a general price index represents an appropriate benchmark.

It may well be a reasonable assumption that the consolidation in the industry has produced

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some efficiency gains. The extent to which this will continue and the quantification of the impact on future costs are not at all clear.

It appears that, while acknowledging the lack of data, ESC proposes adopting 0.5% unless an evidence based alternative is presented.

It is not possible within the timeframe or budget given for this response to conduct research that would give the basis for any alternative. We consider a more reasonable approach may be to defer any productivity adjustment until such work can be carried out.

REGULATED SALVAGE FEE

ESC recommends that the fee for salvage be regulated and the basis they have chosen is an average hourly rate for road freight transport (for 2008) and uplifting it by 50% to arrive at a (GST inclusive) rate of \$39.50, (GST inclusive).

Again there seems to be confusion about the application of GST. The Australian Bureau of statistics does not report cash earnings rates inclusive of GST so the basis should be uplifted for GST.

Further it does not seem appropriate to fix a rate to apply from 1 July 2010, based on 2008 base data without adjusting for the price movements in the relevant time period. The rate should be adjusted upwards for this element.

While recognition is made for additional costs of extra labour or a second tow truck, there is no explicit statement covering the hire in of a heavy salvage vehicle or crane. The ability to pass those costs on separately to the regulated fee should be clarified.