

**Links to the Smash Repair Industry**

The Essential Services Commission (ESC) continues to assert that accident towing services are linked to trade towing, clearway towing and smash repairs. In respect of the smash repair reference, there is a consistent failure to recognise that the government, through changes to the legislation, has done its utmost to separate accident towing from smash repair businesses.

The draft report also fails to take into account the extent to which Insurers go to ensure business is steered to repairers of their choosing; not where the vehicle is towed.

The Commission continues to refer to this “link” with smash repair business, although it is acknowledged that only approximately 30% of towing businesses also are linked to smash repair services.

The IBIS World Report that 75% of smash repair revenue is generated from Insurers conflicts with information from our members. Repairers advise that there is virtually no other work available to them other than insurance company (paid for) work. To suggest that there is 25% of the work available to smash repairers that are not paid for by insurers is farcical.

In the event of accident repairs, following towing, this is especially true. If a tow is required it is reasonable to consider that the vehicle is significantly damaged. It then follows that a significantly damaged vehicle is unlikely to be repaired unless an insurance company is paying for the repair.

**Clearway Towing**

It is nonsense to consider that accident tow-trucks can also operate as clearway tow-trucks. We contend that accident towing services cannot be scheduled. However, if we accept the ESC’s assertion that there are peak times that accident tow-trucks are required, these times would be the same peak times that clearways exist (after all, clearways are designed to deal with peak traffic flows). Therefore it would be anticipated that accident tow-trucks would be busiest during the same time clearways would need to be cleared. ie. Clearway requirements are also during peak traffic periods.

What the Commission also fails to acknowledge is that Clearway tows are paid a significantly higher rate than current Accident tows. Clearway tows also, are normally conducted in a very specific time frame and work can be easily regulated to ensure that tow-trucks are available. It should also be noted that when Clearway tows are done the tow-truck regularly moves two vehicles at once, thus obtaining double payment for every movement. The Commission notes that on average approximately \$262.00 is charged for a clearway tow, therefore, with a double tow \$524.00 is achieved for each of these tows.

Under Section 4.5.2, Clearway Towing, the Commission acknowledges that one major towing company in Melbourne is contracted to undertake most Clearway towing. To therefore suggest that Clearway towing is regularly available to all other accident towing operators is simply not true .

### **Profitably and Viability**

Section 3.5 on page 17 of the draft report suggests general observations regarding industry profitably and viability; it notes that increasing costs or declining revenues will typically result in the diminished profitability and therefore it is theoretically expected to see businesses exiting the market. What this theory fails to consider is that many towing operators know no other industry and therefore, regardless of the reduction in income, they stay with the only business they know.

Table 3.2 makes much of the sale price of accident towing licences. What the Commission does not address is what the appropriate compensation for a business doing accident towing work, leaving aside the cost of the license. Nowhere in the calculations made does it appear that the Commission includes the cost of the licence purchased in the amounts that a business shall have to recover. Therefore, if the Commissioner is to draw much from the price paid for towing licenses that should be included in the cost to be recovered. Equally, if license purchase costs are ignored, then little should be made of that in the calculation of monies to be recovered through towing services.

Section 3.5.3 also speaks of economies of scale and suggests that the purchasing of further accident towing licences and holding them dormant to receive the greater of towing allocations is a useful method of improving a business efficiency and therefore profitability. What that fails to address is that licence purchase costs presently run in the order of \$350,000 thereby making it a ridiculous investment in the vain attempt to achieving economies of scale. However, if the ESC maintains that this is the correct method to achieve productivity gains then the purchase price of licenses should be part of the rate calculations.

### **Allocations and Performance**

Section 3.5.4 addresses industry performance quality and as previously stated, given the low number of allocations, often between 6 and 10 allocations per month per license, towing operators can easily achieve the performance required. Moreover, given that it is a regulatory requirement to attend within thirty minutes and that VicRoads will actively enforce this requirement, operators will no doubt continue to achieve the performance required. In terms of diminished performance or response times, quite simply these do not occur, as the response times are a legislative requirement and a failure to achieve those response times will result in a fine.

Under Section 4.2 Cost Attribution to Accident Towing Services; the Commission describes their consideration in reaching an attribution percentage for accident towing. On page 22 makes the assumption that 39% of a towing company's business can be attributable to accident towing.

On Page 24; the Commission notes, that in their most recent survey Operators indicated approximately 54% of their costs are attributable to accident towing, yet the Commission has still chosen to average that against the results of 2005 (24%). In so doing, the Commission fails to understand the significant changes in the trade towing and the affect of deregulation of trade towing. It needs to be understood that while accident towing businesses can generate some supplementary income from trade towing, there is not a bottomless supply of trade towing for operators to obtain work from. As the government chose to open trade towing to unlicensed operators, it should be recognised that this has allowed an influx of operators with lower overheads

than accident towing operators. Trade only towing operators have no depot requirements or of any of the other regulatory burdens of accident towing operators . Therefore, for accident towing operators to compete in the open market with trade towing operators, they need to recover all of their accident towing costs/obligations through accident towing rates.

The attached Pitcher Partners analysis also makes comment in support of our views on allocations and the assumptions made by the ESC.

### **Profit**

Under table 4.2 the Commission estimated current operating costs at \$275.00 per accident tow. Nowhere in the draft report can we find any element of profit added to this cost calculation.

We also note that the Commission accepts that the CPI under the Melbourne Transportation Index was 6.7% for the period of December 2005 through to December 2009 and therefore a 7% increase would be reasonable. This does not take into account any profit nor does it take into account the fact that costs for the towing business will be increasing from the moment these rates are increased and therefore there should be a margin to allow for cost increases up until the Government next makes a rate movement. Accident Towing is a privately provided emergency service and therefore, like any business, it should be entitled to a profit and this must be provided for in the rate.

### **Storage**

The Commission assumes a three day storage period on a vehicle, as an average. In reality Insurance Companies seldom leave vehicles in storage for that period of time. Any vehicle left for a period of greater than three days is often not subject to any Insurance company payment and therefore, such vehicles fall into the area where a towing operator struggles to obtain payment from private uninsured motorists. Towing operators report that is the current practise for insurers to be in contact with the towing operator within a matter of hours after the accident and therefore a large portion of towing work attracts only one day of storage.

### **Trade Towing**

Under the heading of trade towing, the Commission assumes that trade towing services are generally less time critical. This is a very broad assumption as many trade tows are quite specific in pick-up and delivery time requirements. Trade tow timing can significantly impact upon businesses involved or indeed the public, if a vehicle is being moved from their private premises.

### **Interstate Comparisons**

Table 4.6 creates a comparison of accident towing costs and it is noted that in Victoria, even after the proposed fees increases, is still well below that of other States. What the Commission did not acknowledge is that South Australia does have an accident towing allocation system.

Under productivity, the Commission notes that there should be an annual productivity improvement factor of 0.5% for the Victorian Towing Industry, yet it highlights that the Victorian Taxi Industry had a productivity reduction of only 0.1% in the 2007 to 2008 period. We would argue that the Commission should not suggest a reduction on the annual percentage increase. To force business to amalgamate to remain profitable is in our view inappropriate.

We also note that in 2005 the ESC recommended that no productivity adjustment was necessary and we would agree with the earlier comments of the ESC as noted by Pitcher Partners in their document supporting our response to the review.

### **Salvage**

The towing industry is incensed at the suggestion of fixing salvage charges from accidents at \$34.45 during normal hours and after hours at \$51.70. We would question the ESC as to what industry provides a piece of equipment valued at \$135,000(new) with a skilled operator at anytime of the day or night for those rates. This is simply unacceptable.

Moreover the Commission is suggesting photographic evidence should be mandated, however no provision is made for this service in the rate. It should be noted that in the heavy towing industry Insurers already pay \$35 for 6 photos to evidence salvage. This fees has to cover time taken at the accident, camera and computer costs and office administration in filling, recovering and providing photographic evidence with the towing account. It was also noted that some motorists may object to photographs being taken of their vehicle following an accident and this lead to questions of privacy.

In many salvage operations other equipment such as heavy tow trucks or cranes may be used to retrieve a car. It would be rare that additional equipment would be another "car sized" tow truck. It must be stated the operators of these types of vehicles would not attend accidents for the suggested rates or the standard first tow fee. The ESC to clearly state that salvage fees do not include other equipment.

### **Storage**

The towing industry suggests that there is a lack of reality with storage fees in comparison to car parking rates. Further, there is no extra consideration for the obligation to safely store and secure vehicle towed from accidents.

Towing depots are, by necessity often in areas that attract high rental returns and as such storage rates need to be increased considerably.

## Accreditation

It should be noted that the recommendations make no allowance added for the accreditation burden introduced with the Accident Towing Services Act 2007. As the requirements of this Act differ from this of the previous legislation, consideration should be made in any new rate to compensate operators for the new requirements.

## Non-commercial (Unpaid) Tows

We note that the Commission recommends and has specified that it has included “a quantum” in the base fee to account for non-commercial tows. In reviewing the cost model we are unable to identify any application of a cost that has been incorporated in the calculation in respect of these vehicles.

On the Commission's assumption of the 5% of tows go unpaid (we believe this to be a minimum). The Commission also concludes that the cost of providing an accident tow is \$275 (ESC draft report p.29). With the ESC estimation of 200 tows per truck (2 x100 entitlements), then the rate needs to recover \$14.47 per remaining paying job (190 jobs). This also does not take into account the storage cost that accumulates during the time taken to dispose of the vehicle. We would expect at a minimum of 6 weeks to run the course of the disposal of uncollected goods process which equates to 42 x \$9.20=\$403.20. On top of that there is an advertising requirement under the Disposal of Uncollected Goods Act and there is clearly an administration cost to the business. We believe this would be at a minimum of \$100.

Therefore a more realistic cost of non-commercial tows is;

$$275+403.20+100=778.20$$

Multiplied by 10 jobs per year= \$7782.00

\$7782 divide across the remaining (paying) 190 jobs equals an additional cost per job of \$40.96. per tow.

## Allocations

We would ask the Commission to be mindful that allocations do not necessarily translate to tows. It is not uncommon that motorists will change their minds and drive the vehicle away. Members advise VACC that this can account for 10% of all allocations.