



CITY OF CAPE TOWN  
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## POLICY

# CITY POLICY ON COMPENSATION OF MINIBUS – TAXI AND OTHER OPERATORS (POLICY NUMBER 13776)

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# CITY POLICY ON COMPENSATION OF MINIBUS-TAXI AND OTHER OPERATORS (AS AMENDED)

This document sets out the City's policy on compensation to the mini-bus taxi operators who are directly affected as it relates to the rollout of the MyCiTi bus service. This policy sets out the principles involved in determining the monetary values linked to compensation, but does not set out the actual amounts that will be awarded to operators in terms of this policy. The actual amounts of compensation are determined upon identification of new Integrated Rapid Transit (IRT) routes and are dealt with in terms of the City's budget.

## 1 Definitions

- 1.1 **'Phase 1'** means the initial MyCiTi Network coverage of routes as determined in the original Business Plan. This includes the City centre, airport area and certain roads on the corridor between the City centre and the Table View and Atlantis areas;
- 1.2 **'Market Share Surveys'** means the survey conducted in 2010 to determine a representative daily average for passenger numbers and vehicle trips on a particular route. These surveys were the basis for determining the market share as well as the compensation that the City would pay the minibus taxi operators;
- 1.3 **'Directly Affected Minibus Taxi Operators'** means the minibus taxi operators whose services are proposed to be replaced by a particular phase of MyCiTi, whose legal rights are affected and who have agreed to surrender their operating license and operating vehicle in return for compensation and participation as shareholders in the Vehicle Operating Companies;
- 1.4 **'Valuation Methodology'** means the discounting of future profit flow to the minibus taxi operators for a five (5) year period for a definite operating licence and seven (7) years period for an indefinite operating licence;
- 1.5 **'VOC's'** means the MyCiTi Vehicle Operating Companies;
- 1.6 **'Dormant Process'** means the special regulatory process that the three spheres of government transport departments embarked on a process to allocate active operating licenses which were unclaimed to the relevant associations, the associations were expected to distribute the operating licences to the members on a method that is guided by the constitution of the associations.
- 1.7 **'PRE'** means the Provincial Regulatory Entity as contemplated in the National Land Transport Act, 2009 (Act 5 of 2009);

- 1.8 **'Mead and Mcgrouter' (M&M)** means the Vehicle dealer guide used to determine the correct value of used cars that provides a good average price of a specific vehicle model.

## 2 Categories of operators qualifying for compensation

### 2.1 Standard Compensation

- a) Minibus-taxi operators who are directly affected by a particular phase of MyCiTi implementation and who have agreed to surrender their operating license and operating vehicle may qualify for full compensation (as described in this document).
- b) Subject to the provisions of clause 5.1 "Vehicle Exemption", an operator may be exempted from the obligation of surrendering the operating vehicle.
- c) These operators will also have rights to shareholding in the new VOC.

### 2.2 Standard Compensation where different conditions apply

- a) In this category of compensation, the valuation methodology applied is the same as that of determining the Standard Compensation; however the only exception is that in this category the Vehicle Operating Company (VOC) has no obligation to the operators to offer shareholding.

#### 2.2.1 Voluntary Exit Compensation

- a) Under this category of compensation, the City's processes indicate that the number of operators will have to be reduced
- b) Operators have the opportunity to volunteer to relinquish their licences in return for compensation
- c) There will also be no opportunity for operators to invest in the VOC's
- d) This option is available in circumstances where there are sufficient minibus taxi services on the relevant routes.

#### 2.2.2 Special Compensation

Special Compensation is payable to those operators that are currently operating in competition with MyCiTi services in the Phase 1 areas. These operators have operated consistently after the Market Share Surveys as the operating licences were issued after the 2010 surveys through the dormant process.

### **2.3 Additional Authority Compensation**

- a) This category of compensation is aimed at operators, who have authorities on their Operating Licenses to operate on the affected IRT routes, but currently do not or seldom exercise these rights.
- b) Limited compensation will be offered where licences are amended to remove the routes that are not being utilised.

### **2.4 Alternative determination of compensation**

In certain circumstances the methodology described in paragraph 4 would not provide the most effective or commercially viable manner to determine the amount of compensation due to a directly affected taxi operator. In such circumstances the City may pay the following compensation:

### **2.5 Nominal Compensation**

- a) Nominal Compensation is offered to holders of operating licences that have been “inactive” for long periods of time, as determined through the City’s historical surveys.
- b) These operating licences are mainly indefinite licenses that have been operational for at least one year prior to the 2010 survey conducted by the City for the implementation of the MyCiTi phase 1 services.
- c) These licences expire after a period of 7 years. These operators will not be permitted to invest in the VOCs.

### **2.6 Minimum Compensation (Floor Price)**

- a) Minimum compensation is offered to those operators that have operated consistently before the 2010 market share surveys and after the market share surveys.
- b) These operators are still active in the records of the Provincial Regulating Entity. These operators are still operating on the MyCiTi phase 1 routes.

## **3 General basis for determining Standard Compensation**

- a) Compensation is generally aimed at determining the value of the actual legitimate business of an operator whose services are being replaced by the MyCiTi system.
- b) It is not aimed at replacing the rights on the operating license. This means if an operator has an operating license with authority to operate on a network of routes, but is exercising the rights on only one or two routes to generate an income, then compensation is aimed at replacing the value of

the income and not the potential income that could be generated from the other authorities on the operating license.

#### **4 Methodology for calculating Standard Compensation**

Standard Compensation is named as such to distinguish it from Voluntary Exit Compensation and the categories of compensation listed in paragraph number 2.

The following steps should be used to determine the compensation value in a particular phase or corridor where MyCiTi is to be implemented:

4.1 Identify all the directly affected and partially affected operators.

##### **4.2 Market share per transport mode:**

- a) Through detailed surveys of passengers' trips on all directly and partially affected modes, determine the market share of each mode using fare revenue as a criterion.
- b) In the case where the fare to the passenger on a particular mode is subsidised through government funding, the fare revenue directly linked to the subsidy for that mode should be adjusted to take account of the influence of the subsidy on passenger modal choice.

##### **4.3 Market share per taxi association:**

- a) Once the market share of the mini-bus taxi mode has been determined, the market share of each route or association then needs to be determined using average legitimate profit as a criterion.
- b) Average legitimate profit is defined as the fare revenue less the average and appropriate operating costs (taking into account the costs a prudent operator of a transport business would incur, or would have to incur as required by law), including the repayment on the vehicle.
- c) Average operating costs per vehicle on a particular route must include:
  - i. Driver salary
  - ii. Insurance
  - iii. Vehicle payment
  - iv. Fuel
  - v. Oil
  - vi. Brakes
  - vii. General repairs
- d) To calculate the repayment costs on a vehicle, a standard vehicle cost needs to be applied. This is determined by considering the type and cost of a vehicle that would be required to render a service, for a period equivalent to the average validity period of the operating licenses on a particular route.
- e) To determine the average fare revenue per vehicle, the total fare revenue per route must be divided by the number of vehicles per association that actually operate on that route with valid operating licenses.
- f) Total average cost and profit per route is calculated in the same way by multiplying the average cost and profit per vehicle by the number of vehicles required on the route.
- g) Market share per route or per taxi association is determined using the total average fare revenue for the association.

#### 4.4 Lump sum determination:

- a) The lump sum is the actual value of compensation to be offered by the City and is intended to reflect the value of the business to be replaced by the MyCiTi system.
- b) The lump sum is determined by calculating the average profit over the validity period of the operating license and then converting it to net present value.
- c) The validity period of the operating license is the license period reflected on the license at the time the compensation is calculated and finalised.
- d) For the purpose of calculating the lump sum value, the following periods shall be used:

Category of operating license	Period
Former indefinite license	7 years
Definite period license	5 years

\*\*the validity period above is informed by the National Land Transport Act specifications

- e) The lump sum value thus calculated at the beginning of the process (prior to the negotiations for 12 year contract being concluded), will hold firm irrespective of when during the roll-out period it becomes payable.
- f) The total lump sum for each of the two categories of operating licenses is calculated separately to determine an “indefinite license pot”, and a “definite license pot”.
- g) Associations are then required to indicate to the City how they want the lump sum to be distributed to their membership in the most appropriate way, i.e agree to a distribution formulae.

#### 4.5 Lump sum distribution

- a) The lump sum value is first calculated per association.
- b) Associations are then required to indicate to the City how they want the lump sum to be distributed to their memberships in the most appropriate way.
- c) The membership of the association must be grouped into definite and indefinite categories although the association may indicate a different treatment of the different categories.
- d) Within each category, agreement must be reached by at least 80% of the all the members *who are directly affected* on the basis for distributing the lump sum pot.
- e) If no such agreement is reached, the City will apply the following distribution formula: 30% of the pot to be divided equally amongst the members and the remaining 70% allocated on a pro-rata basis, based on the number of passenger trips undertaken by each member.

## 5 Vehicle Exemption and Compensation for Additional Income

### 5.1 Vehicle Exemption

Operators who wish to apply to be exempted from surrendering the operating vehicle linked to the operating license which may be surrendered must meet one of the following criteria:

- 5.1.1 There is no vehicle linked to the operating license because the operating vehicle has been scrapped, written-off or stolen;
- 5.1.2 The operating license has not been uplifted or is held in safekeeping by the Regulatory Entity;
- 5.1.3 The license-holder does contract work that is not affected by the license surrender and requires the vehicle for contract work;
- 5.1.4 The license holder does not own the vehicle attached to the operating license and he/she is leasing the vehicle from another individual or company who is in the business of leasing vehicles to the operating license holders; or
- 5.1.5 If an operator who forms part of the phase of MyCiTi where he will surrender his business also holds operating licenses or is acquiring OLs in areas outside the phase of MyCiTi, he may use the existing vehicle to uplift the new operating license.

## **5.2 Compensation for Additional Income**

- 5.2.1 Operators who earn legitimate income from the same operating license and vehicle other than the minibus taxi income that was taken into account when compensation was calculated may apply to the City for compensation in respect of the additional income if required to surrender the vehicle.
- 5.2.2 The criteria for additional income are:
  - a) The surrendering operating license must have the relevant authority for which the additional income is applied for and
  - b) The operator must have a valid verifiable contract for the additional income and the City must be satisfied that the value of the contract is sufficient to sustain the business on its own

## **6 Application of compensation model**

### **6.1 Market share and shareholding:**

- a) The compensation model provides for a direct link between the market share, lump sum, and rights to shareholding in the vehicle operator company for both the individual operator as well as for the association as a collective.
- b) Market share and the associated right to shareholding must therefore be determined and agreed to upfront, i.e. prior to formation of the VOC's.

- c) Where roll-out of a particular phase of the MyCiTi project is planned to occur over a number of years, the market share and associated right to shareholding in the VOC agreed to prior to its formation, cannot be changed, notwithstanding the fact that passenger demand may change during the course of the roll-out period.

## 6.2 Dormant operating licenses

- a) Dormant operating licenses on any affected route should be identified via historical surveys and the Provincial Regulatory Entity requested to follow a process of taking these operating licenses off the system.
- b) Affected associations should then be given the opportunity to replace these dormant operating licenses with applications for new operating licenses.

## 6.3 Additional operating licenses

- a) The City must not support, except in the case of replacement of dormant operating licenses, the granting of any additional operating licenses on the affected routes once the market share has been finalised.
- b) If some additional operating licenses are granted by the Provincial Regulatory Entity during this period, such licenses will not have any impact on the agreed market share.
- c) In such cases, the lump sum allocated to an association must then be shared amongst all the members holding valid operating licenses.

## 6.4 Additional authorities

Operators who hold licences with additional authorities for areas limited to the MyCiTi phase 1 should be offered compensation in exchange for the –

- 6.4.1 termination of the operating licence and the surrender of the vehicle based on the final compensation methodology; or
- 6.4.2 excision of only the phase 1 routes without the surrender of the vehicle to enable the operator to continue operating on routes outside of Phase 1 area. The compensation value is determined after a consultation process.

# 7 Taxi Market Value

## 7.1 Determination of Taxi Market Value

Taxi Market Value (TMV) is required to be determined for 2 categories of vehicles, viz.

- a) Vehicles with Year Models between 2001-2006, which vehicles will all be scrapped
- b) Vehicles with Year Models 5 September 2006 upwards, which vehicles will either be substituted with an older vehicle or bought by a taxi scrapping agent and sold outside the province.

## 7.2 Category 1: Year Models between 2001 and 2006



Based on minibus-taxi operator selling prices obtained during surveys conducted in the industry (minibus-taxi rank price), prices are offered to the minibus-taxi operator, irrespective of mileage and condition of the vehicle. The TMV is therefore equal to the average price of minibus-taxi sales sold amongst taxi operators for particular year models.

### 7.3 **Category 2: Year Models exceeding 4 Sep 2006**

- a) The TMV that was derived at is based on selling prices of minibus-taxi amongst taxi operators.
- b) The trade price in the Mead and Mcgrouther (M&M book) vehicle guide as adjusted monthly will be used as a basis. Since a comparison between trade with minibus-taxi rank price (and not floor price), the mileage and condition charts in the M&M guide should be applied to achieve a vehicle to an average condition (instead of showroom condition).
- c) Once the trade value of the vehicle has been adjusted in this manner, incremental factors are added to the adjusted trade value to derive at the TMV.

#### 7.3.1 Other Vehicles:

##### **I. Nissan Interstar**

The trade value of the vehicle per the M&M book will be utilised as the basis for determining the TMV. The trade value will be adjusted utilising the M&M book adjustment table to derive at a "Trade in Value". This "Trade in Value" will constitute the TMV amount paid to the minibus-taxi operator.

##### **II. All Chinese Manufactured Vehicles Year models 2007 to 2010**

The operators with vehicles that fall into this category will be paid a fixed amount that is equivalent to the determined scrapping value. This value fluctuates year to year to take into account the inflationary increases as per Consumer Price Index.

##### **III. Year models 2011 to 2013**

The Average Selling Prices (ASP) in the market will be utilised as a basis to determine TMV. These values will be adjusted utilising the mileage and condition chart as per the M&M guide. The values in the condition chart will be doubled in order to reflect the rapid deterioration of Chinese vehicles. After having adjusted the ASP in this manner, the value that is derived at, constitutes the TMV.

### 7.4 **Auction Option**

Should the operator consider the TMV determined using the above methodology to be too low, the operator will have the option to request the taxi scrapping agent to sell the vehicle on public auction.

## **8 Roles and Responsibilities**

8.1 The roles and responsibilities set out in this policy are as follows:

8.1.1 The Commissioner: Transport for Cape Town (TCT), in consultation with the Chief Financial Officer (CFO), determines:

- a) The compensation to be offered to the affected minibus taxi operators.
- b) The process to be followed regarding the compensation offer and the payment of the compensation.

8.2 The Commissioner and the CFO may effect amendments to the policy as long as the amendment does not exceed the amounts of compensation that was approved by Council.

## **9 Monitoring and Review of the Policy**

9.1 The policy may be amended as required with the research, planning and development of new MyCiTi phases.