

Summary of the City of Cape Town's compensation policy



The Compensation Policy refers to the policy regarding compensation of minibus-taxi operators who are directly affected by Phase 1A of the MyCiTi Integrated Rapid Transit (IRT) Project of the City of Cape Town (“the City”). This is a summary of the City policy on compensation to the minibus-taxi operators who are directly affected (called “operators” below). This policy must be read together with Chapter 10 of the MyCiTi Business Plan for Phase 1A (on industry transition), and Annexure F of the Business Plan (on how compensation is determined) as amended.

October 2011

1. Directly affected operators

Directly affected operators are the 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 licence and operating vehicle in return for compensation and / or participation as shareholders in the vehicle operating companies to be contracted by the City. An affected minibus-taxi association is a minibus-taxi association with members who are directly affected operators (called “Association” below).

2. Process for determining compensation

- 2.1 The overall process for deciding on the compensation to be offered to directly affected operators is summarised in Figure 1.
- 2.2 The City will calculate the average value of the businesses of taxi operators, per directly affected Association (referred to below as “an Association”). This is determined as follows:
 - (a) The survey figures of passengers transported by all the affected Associations and Scheduled Bus services must first be finalised.
 - (b) Fare revenue is calculated by multiplying the number of passengers carried by a given association on affected routes (as shown by the City’s surveys) by the fares paid.
 - (c) Average legitimate profit is calculated by taking the combined fare revenue of an Association on affected routes, minus average legitimate costs.
 - (d) Compensation is based on the average legitimate profit linked to the type of operating licence of the operators.
- 2.3 Based on its calculation of the average value of business of operators in a given Association, the City will offer a compensation pot to the Association.

3. Compensation pots

- 3.1 The process for deciding on the formula for allocating compensation is summarised in Figure 2.
- 3.2 The City will make its initial offer of compensation pots to Associations only after the following steps are complete:

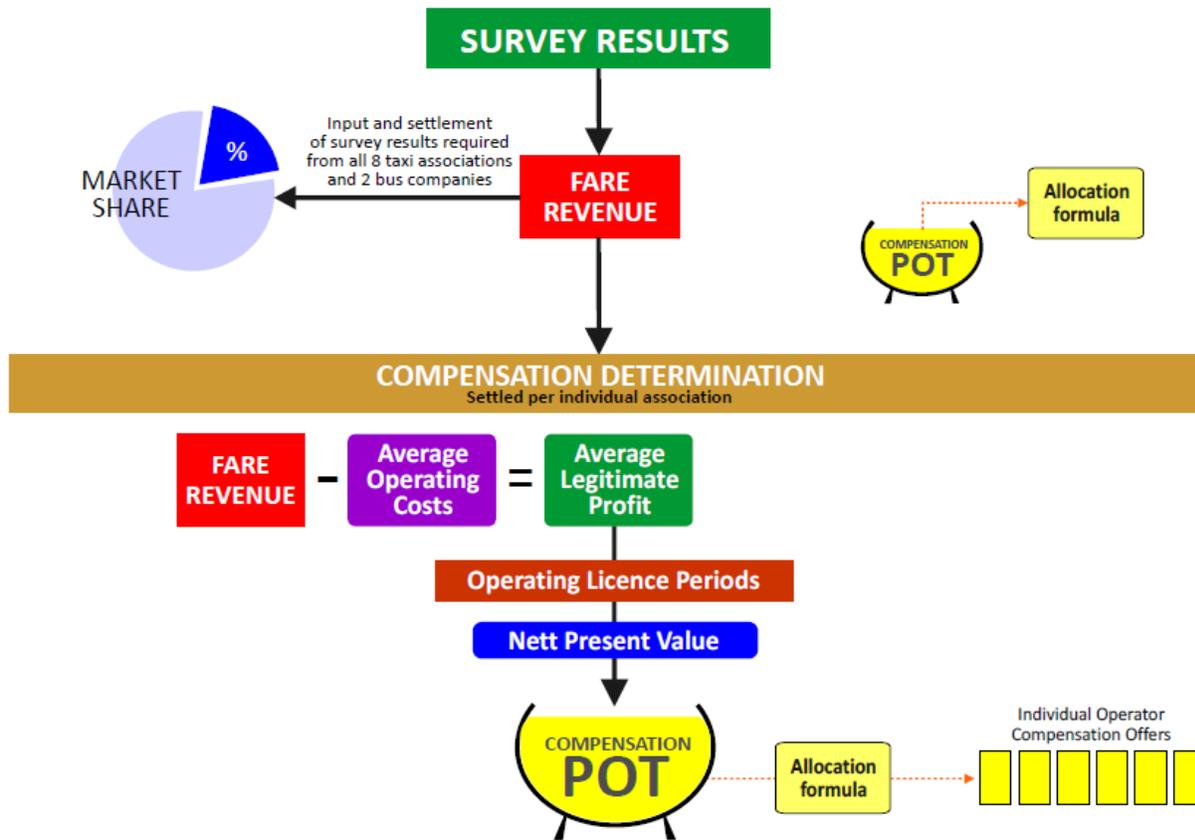
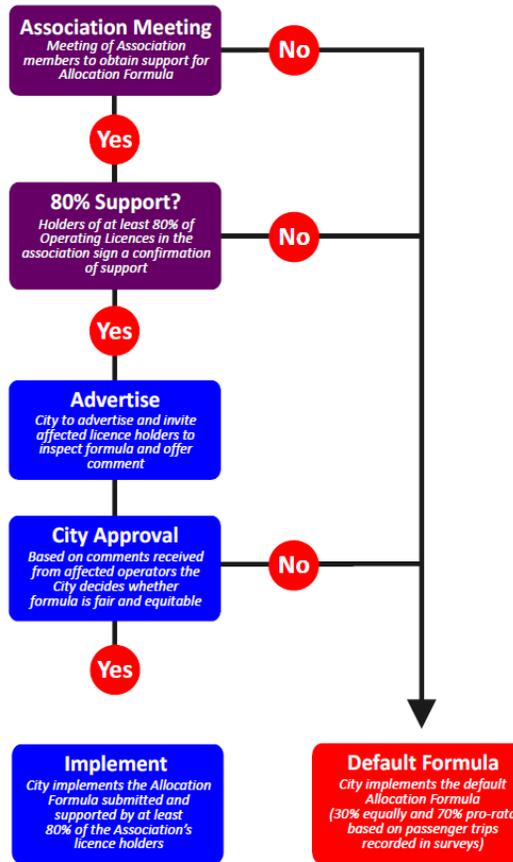


Figure 1. Process for determining compensation

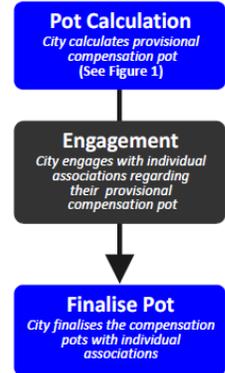
- (a) Once it has finally determined the survey figures of passengers transported by all the affected Associations and Scheduled Bus services; and
 - (b) Once the Associations have provided the City with written confirmation of its decision on how it plans to allocate its compensation pot (“the allocation formula”) (see below).
- 3.3 The Association must submit the formula or method on how the compensation pot should be distributed (“the allocation formula”) to the City for comment.
- 3.4 The City will accept a decision from an Association on the allocation formula only if the following conditions are met:
- (a) If the Association’s allocation formula is supported by the required majority at a special general meeting held in terms of the constitution of the relevant Association – as confirmed by the Registrar;
 - (b) If the holders of operating licences in the Association, representing at least 80% of licences in that Association, sign in support of that Association’s allocation formula;
 - (c) If the City accepts that, on the available facts, the motivation for the allocation formula appears to comply with the principle of fairness and equity.
- 3.5 The City plans to invite all Association members, through a public advertisement, to inspect the allocation formula and the list indicating how compensation will be divided, and to submit full comment to the City and to the Executive of their Association if they believe the allocation formula is not fair and equitable.

STEP 1 **SURVEY RESULTS**
Settled by City after input from industry (See Figure 1)

STEP 2 **Compensation Pot Allocation Formula**



STEP 3 **COMPENSATION POT**



STEP 4 **Individual Compensation Offers**

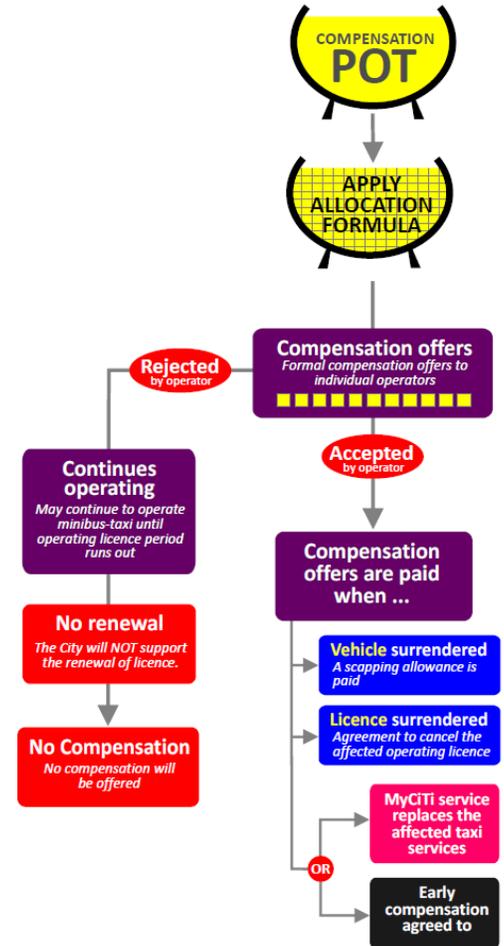


Figure 2. How the allocation formula is determined, and compensation is offered

3.6 If the Association's compensation resolution does meet the requirements of paragraph 3.4 the City will apply the City's own allocation formula, as set out in the City's Business Plan for Phase 1A (as amended)

4. Final compensation offers

4.1 Once the Compensation allocation formula is made or if the City decides to use its own principles for allocation as set out in paragraph 3.6, the City will make compensation pot offers to each Association (see Figure 2).

4.2 The City will then engage with each Association with a view to reaching agreement.

4.3 If no agreement is reached, the City will finalise compensation offers using the principles set out in the MyCiTi Business Plan (as amended).

4.4 The City will then make formal compensation offers to each affected operator or beneficiary identified in the final allocation formula (as accepted by the City).

4.5 Such operator will be free to accept or reject the City's offer.

(a) If he / she accepts the offer, he / she will be subject to the conditions of that offer, which will include that the operator must give up the operating licence or exclude the relevant routes from the operating licence, and make various undertakings.

(b) If an operator with an operating licence rejects the offer, he / she will be entitled to operate on the authorised routes until the operating licence runs out. The City will not support the renewal of these operating licences, when they come up for renewal.

4.6 Compensation will only be paid out:

(a) To operators who have accepted the City's offer;

(b) Once taxi vehicles have been provided for scrapping in terms of the City's Compensation Policy;

(c) Once the relevant minibus-taxi services are replaced by MyCiTi services, unless early compensation is requested by the relevant operator, and agreed to by the City.