CHAPTER – IV : UNION TERRITORIES (COMMERCIAL SECTOR)

4.1 Profitability of operations of hotels in Chandigarh Industrial and Tourism Development Corporation Limited

Chandigarh Industrial and Tourism Development Corporation Limited (CITCO) has not formulated a long term business strategy to improve the operational efficiency of its hotels. The hotels did not practice dynamic pricing, contrary to industrial practice. CITCO unnecessarily collected luxury tax on food and drinks from its customers. In variance to industry practice CITCO distributed five *per cent* of banquet collections to its hotel staff. Staff deployment is in excess of norms. CITCO has not formulated detailed Standard Operating Procedures. No efforts were made to inform customers that online bookings secured a discount of 20 *per cent*. Undue delay in renovation of Hotel Mountview caused substantial loss of business. Despite suggestion of the Board, no energy audit was conducted.

4.1.1 Introduction

Chandigarh Industrial and Tourism Development Corporation Limited[1] (CITCO) was incorporated in March 1974, under the Companies Act, 1956 as a wholly owned Government company for industrial and tourism development in Chandigarh. CITCO operates three[2] hotels and four[3] cafeterias.

4.1.2 Audit Objectives, Scope and coverage

The Audit covered operations of two[4] hotels of CITCO during 2012-13 to 2014-15. A review of these hotels was taken up with a view to assess efficiency and effectiveness of the operations. The turnover of these two hotels constituted 73.02 *per cent* of its aggregate turnover from tourism operations (hotels) during the three-year period under review. The audit was conducted from 15 April 2015 to 05 June 2015 and again from 13 July 2015 to 28 August 2015.

[1] Formerly known as Chandigarh Small Industries Development Corporation Limited (CSIDC) before entrustment (January 1988) of additional functions of promotion of tourism and other related activities.

[2] Hotel Mountview (HMV), Hotel Shivalikview (HSV), Hotel Parkview (HPV).

[3] Cafeterias at Sukhna Lake, Kalagram, 'Chef' at Sec-17 and 'Drop-in' at Sec-34.

[4] Hotel Mountview and Hotel Shivalikview.

4.1.3 Hotel Mountview (HMV)

This hotel is the flagship hotel of CITCO having 145 rooms and 10 suites, a health club, two restaurants, a coffee shop and a banquet hall. It is the first hotel of Chandigarh to be awarded five-star classification in 2005.

After attaining a peak of ₹ 32.01 crore during 2010-11, the turnover gradually dropped to ₹ 22.49 crore during 2013-14. The expenses increased during 2012-13 and 2013-14, thereby squeezing the profit margin substantially over these years. Eventually the profit margin turned into loss (before depreciation) during 2013-14 and 2014-15. The main reason for decrease in turnover was decline in occupancy from 37.64 *per cent* in 2011-12 to 29.06 *per cent* in 2013-14, coupled with decrease in income per room night sold from ₹ 5,260 in 2011-12 to ₹ 4,122 in 2014-15 owing to discounted rates. The ratio of income from room rent to overall sales declined from 42.63 *per cent* in 2011-12 to 28.80 *per cent* in 2014-15.

4.1.4 Hotel Shivalikview (HSV)

HSV (erstwhile Janata Hotel) was commissioned in January 1990 and renovated in 2011-12. It has 104 rooms and four suites. Sales in HSV improved from ₹ 18.52 crore to ₹ 20.24 crore during 2013-14 and 2014-15. Due to increase in sales, the loss of ₹ 156.12 lakh in 2012-13 turned into a profit of ₹ 47.62 lakh during 2013-14 which further improved to ₹ 153.94 lakh in 2014-15 (before depreciation). Income from room rent, banquet and restaurant recorded an increase from 2013-14 onwards.

The important audit findings are given below:

4.1.5 Audit findings

4.1.6 Non-existence of long term business strategy

The Board of Directors (BOD) of CITCO sought (August 2012) to set a long term business strategy, and for each hotel to work out its own strategy. It was, however, observed that neither CITCO had worked out any strategy, nor undertaken any specific study for improving operational efficiency despite the BOD acknowledging stiff competition from other hotels as the reason for low occupancy. Even breakeven levels to judge the profitability of operations were not assessed.

The Management accepted (January 2016) that no such study was made and stated that the process of engaging a long term strategic consultant was in progress.

4.1.7 Room rent

4.1.7.1 Non-dynamic tariff structure

Against prevailing Best Available Rates (BAR) in the hospitality sector which moves with the market trends to meet local conditions like festivals, weekends, wedding season, etc., and allows for innovative and dynamic pricing, the hotels followed a rigid tariff structure decided each year. Further, room wise cost analysis was not carried out while deciding these rates. Despite approval by the BOD (April 2013), BAR regime was not implemented. Thus, the hotels were not able to optimize revenue from room rent by timely adjustments to the demand supply cycle of the industry.

The Management stated (January 2016) that the BAR rates for online portals were being handled by General Managers of the hotels as powers had been delegated to them recently.

The reply of the Management is not convincing as in another reply, it was confirmed by the Management that the hotels were operating on rack rates[5] and there were no specified BAR rates.

4.1.7.2 Non-automation of Management Information System (MIS) for allowing discount

Despite computerization, customized report of discounts accorded was not extractable for effective MIS. As a result, notes indicating discounts allowed against each guest were prepared manually at day end for approvals. The file containing such notes was neither indexed, nor page numbered for effective internal control. Further, the system was devoid of IT checks like validation for existence of sanction while processing bills.

Booking data of HMV for the year 2012-13 in which the hotel had made 4677 bookings amounting to ₹ 3.84 crore by extending discount of ₹ 75.51 lakh, were scrutinized[6] in audit. A random sample of one *per cent* population was drawn to ascertain the validity of sanctions of discounts extended. The hotel

[5] A hotel's rack rate is the full price at which rooms are sold to customers before discounts.
[6] Using IDEA software.

could not produce sanction notes for 28 *per cent* of the sample. This is indicative of insufficient assurance that discounts extended were approved by competent authorities, as required, and that there were no cases of unauthorized discounts.

The Management accepted (January 2016) that there is no specific/customised discount report, but assured that the manual files are now being numbered and kept date wise at the instance of audit.

4.1.7.3 Non-availing of benefit available under luxury tax

In terms of Section 6(1) of the Punjab Tax on Luxuries Act, 2009, where the charges for luxury provided in a hotel are inclusive of the charges for food and drink, on the application of the proprietor, the assessing authority may segregate the charges separately, i.e., charges for luxury and charges for food and drink. It was observed, however, that CITCO did not approach the assessing authority to avail of the benefit and made avoidable payment of ₹ 32.37 lakh as luxury tax on segregable value of ₹ 809.20 lakh of complimentary food and drinks during 2012-13 to 2014-15.

The Management stated (January 2016) that renting of rooms is a composite package and element of complimentary food cannot be bifurcated for renting of rooms, as most of the guests do not require this to be shown separately.

The reply is untenable as it is inconceivable that guests would prefer to opt for unnecessary payment of luxury tax, and the current practice of charging luxury tax on complimentary food and drinks is resulting in collection of excess luxury tax from customers, which could otherwise have been avoided by availing of the benefit under Section 6(1) of the Punjab Tax on Luxuries Act, 2009.

4.1.7.4 Overcharging of luxury tax

(i) The hotels sold rooms during 2012-13 and 2013-14 (till February 2014) having declared tariff (fixed/published tariff without discount) totaling ₹ 4,318.92 lakh at normal rates[7] totaling ₹ 3,092.30 lakh thereby allowing a discount of ₹ 1,226.62 lakh. However, luxury tax was collected and paid on declared tariff instead of normal rate as applicable under Punjab Tax on Luxuries Act, 2009, resulting in overcharging of luxury tax from customers amounting to ₹ 49.06 lakh. This point was raised by audit earlier (March

[7] Rates charged after giving the discounts.

2014) after which the Management discontinued this practice but it is yet to refund the excess charged amount.

(ii) As per section 6(1) of the Act, luxury tax on banquets was leviable excluding food and drinks. However, CITCO collected the tax on food and drinks as well, resulting in undue collection of ₹ 33.47 lakh during the year 2011-12.

The Management accepted (January 2016) the overcharging of luxury tax and refunded (May/June 2016) the entire amount to the guests concerned.

4.1.8 Food cost

4.1.8.1 Apportionment of service charge on food from collections

CITCO apportioned five *per cent* of the banquet collections as service charge which is later distributed among the hotel staff. During 2012-13 to 2014-15, the hotels apportioned ₹ 192.70 lakh from its bills as service charge. However, the amount of service charge was not depicted on the face of the bill, meaning thereby that customers would pay additional tips to hotel staff in the belief that no service charge was levied separately. The Management stated (January 2016) that service charge being apportioned was treated as an expense and was thus deducted from the calculations of food cost charged. This is against industry practice, and is untenable, because it is not transparent, and also when viewed in the light of the fact that employee cost of the hotels is already high with respect to the turnover as mentioned in the paragraph below. By adopting the above practice CITCO had forgone revenue of ₹ 192.70 lakh.

4.1.9 Manpower

4.1.9.1 High cost due to surplus manpower

As per 'India tourism statistics 2011' the employment norms[8] in hotels of four star category and upwards is 204 employees per 100 rooms, whereas in HMV and HSV this ratio was found to be 250 and 320 respectively. In absolute terms HMV and HSV[9] were found overstaffed by 72 and 126 employees respectively against the industry norms. Moreover, against the industry norm for manpower cost at 30 *per cent* of turnover, the manpower cost at HMV ranged from 58.25 *per cent* to 68.29 *per cent* of total turnover and at HSV

[8] 'India tourism statistics 2011' by the Market research division study of MoT, GoI.
[9] Though unclassified, HSV has been treated equivalent to a four star owing to its facilities.

from 54.35 *per cent* to 65.47 *per cent* during the three years ending March 2015. The financial implication of having surplus manpower in HMV and HSV amounted to ₹ 17.27 lakh and ₹ 30.23 lakh respectively during 2014-15. The Management had neither analysed the reasons for such high manpower cost, nor taken steps to rationalise the same so as to improve profitability.

The Management accepted (January 2016) that the manpower cost was higher, attributing it to regular employees and stated that this was likely to be reduced due to retirements in the near future.

The reply of Management is not tenable, since, as per CITCO policy, employees posted in its hotels can be transferred to other units, which has not been considered. Further, only 203 employees in the entire CITCO are due for retirement in the next five years, whereas the surplus in the two hotels alone is 198. Therefore, the reply of the Management does not indicate any analysis of incidence of high costs nor initiation of any proactive measures to reduce manpower costs.

4.1.9.2 Manpower deployment

a) For the predominant part of three years ending March 2015, HMV and HSV (in the case of HMV since 2008) remained without regular General Managers (GM). Against ₹ 15 lakh *per annum* Cost to Company (CTC) for its regular GMs, CITCO repeatedly advertised the post of GM on contract basis at CTC of ₹ 10 lakh *per annum.* Finally, CITCO re-advertised the post (February 2015) with increased CTC of ₹ 29.40 lakh *per annum*. However, on appointment of the GM for HMV, CITCO enhanced his emoluments to ₹ 35.28 lakh *per annum*, solely on the request of the selected candidate. This was much higher than what CITCO had assessed CTCs ranging from ₹ 22.80 lakh to ₹ 30.60 lakh *per annum* in other five star hotels in the region. Moreover, despite the higher salary the loss making HMV failed to set any quantitative business targets for the GM.

The Management accepted (January 2016) and stated that revenue targets were fixed for 2015-16.

Audit, however, further observed that the targets could not be achieved in 2015-16 also and the net occupancy of the hotel decreased from 33.15 *per cent* in 2014-15 to 31.49 *per cent* in 2015-16.

b) Staff cannot satisfy expectations in the highly competitive hotel industry without proper and regular training. The Management informed (March 2015) the BOD that lack of professionalism along with issues of staff motivation/attitude, updating of knowledge/skill etc., were weighing down the hotels' performance. Audit noticed that no training was imparted to HMV and HSV staff after the last training imparted to staff at HMV in May 2010. The Management stated (January 2016) that trainings were organized during 2015-16.

c) HMV did not have complete qualification details, photographs etc., of around 114 to 135 number of staff hired from service providers, for the kitchens and front office. Therefore, the Management was unaware of the qualification, experience and genuineness of the hired personnel, who were hired without police verification reports (PVR), despite clear guidelines of the Ministry of Tourism.

The Management stated (January 2016) that staff was hired on the recommendations of a committee, which ensured that all the documents were attached and kept on record.
The reply is not acceptable as none of these documents were found available with the Management.

d) The services of an employee (Commis-II cook) engaged on the rolls of the HSV were placed with UT Administration in 2005. However, the hotel failed to take reimbursement of ₹ 31.54 lakh paid as remuneration for the services rendered during February 2005 to March 2015 outside CITCO which is a direct loss to the hotel.

The Management accepted (January 2016) the findings and stated that the matter had been taken up with the UT Administration.

4.1.10 Sub-optimal quality of services

Quality of services has a direct bearing on the business in a hotel, which includes good quality of food, hygienic environment, room cleanliness, security of premises, behaviour of staff etc. Audit observed that CITCO's hotels lagged in customer satisfaction, as discussed hereunder:

a) Detailed Standard Operating Procedures (SOPs) regarding uniformity and quality of services to be provided in various sections of hotels dealing with its guests have not been formulated for HSV, even while detailed SOPs were formulated in HMV in February 2015.

The Management accepted (January 2016) the findings.

b) Systematic collection and analysis of customer feedback information was lacking. Feedback was obtained on paper feedback forms which were not indexed/maintained department wise to ascertain the areas with recurring problems. The feedback collection from HMV was just 2.41 *per cent* of the guests in 2012-13 to 2014-15, whereas in HSV, it was 1.86 *per cent* during 2013-14 to 2014-15. In the absence of proper feedback, areas for improvement remained unidentified.

The Management accepted (January 2016) the findings and stated that efforts are being made to obtain feedback from every customer. The Management further added (June 2016) that a feedback form is provided to each guest on check in and a message is sent on his mobile and through email after his check out to obtain the feedback.

However, only marginal improvement was noticed during January 2016 to March 2016 in customer response after the revised procedure was introduced.

4.1.10.1 Inadequate business promotion

(i) Non promotion of hotel business

Against an approved budget of ₹ 45 lakh for the specific purpose of advertising/publicity of the hotel properties, the hotels incurred an expense of ₹ 25.88 lakh. However, Audit noticed that out of this, ₹ 23.19 lakh was incurred on non-promotional advertising purposes like tenders, AMCs, etc., and only ₹ 2.69 lakh was spent on advertisement for promotion of core activity i.e., sale of rooms. The balance amount of ₹ 19.12 lakh remained unspent (March 2015).

The Management stated (January 2016) that they had participated in various tourism events and fairs etc., for promoting the hotels. The reply is not acceptable as only a meagre amount (six *per cent* of the total advertising budget) was spent on advertisement for hotel promotion. Further, the result of participation in promotional events did not reflect in the trend of occupancy in HMV which was continuously below 36 *per cent* during the period under audit.

(ii) Inadequate online promotion and non advertising of discounts

It was observed that though the hotels' official websites offered online bookings, only 94 bookings (or 0.29 *per cent* of the total 32,451 bookings) were made online during 2012-13 to 2014-15 at HMV. The website did not disclose that bookings made online were entitled to a discount of 20 *per cent*, and this fact was also not publicised in advertisements. Another website (http://citcochandigarh.com) continued to display room tariffs as applicable in October 2010[10].

The Management stated (January 2016) that disclosure of discount was their prerogative. The reply can not be accepted since the BOD had approved discounts for online bookings and it is imperative for the Management to sufficiently and transparently disclose and publicise this, so that the occupancy ratio of the hotels can be improved and revenues maximised.

(iii) Arrival of foreign tourists

The share of foreign tourists visiting the hotels of CITCO decreased from 16.02 *per cent* in 2012-13 to 10.07 *per cent* in 2014-15. Though the BOD was intimated (April 2013) about the need to connect CITCO's properties on a Global Distribution System[11] (GDS) to push its presence in the global market to travel agents and bulk buyers, no subsequent analysis, action and corrective measure followed to contain the downward trend of this segment. The Management accepted (January 2016) the findings and stated that efforts are being made to increase visibility in the global market.

4.1.11 Utilisation of assets

4.1.11.1 Loss of business due to undue delay in renovation work

The renovation work of 23 rooms and four suites of HMV scheduled for completion in April 2013 was completed after a delay of two years. The renovation impacted the booking of the adjoining/nearby rooms as well, and thus the number of rooms not available for booking due to maintenance almost doubled as compared to 2011-12. Therefore, the number of room nights sold by the hotel decreased considerably during 2012-13 and 2013-14 from 18,066

[10] As on May 2016.

[11] A worldwide computerized reservation network used as a single point of access for reserving airline seats, hotel rooms, rental cars, and other travel related items by travel agents, online reservation sites and large corporations.

to 13,447 nights respectively, resulting in business loss of ₹ 198.12 lakh[12]. Consequent to renovation, however, the number of room nights available and sold increased from 47,735 and 15,824 respectively in 2014-15 to 51,391 and 16,183 respectively in 2015-16 due to increase in available rooms.

The Management stated (January 2016) that time limit of the contract was extended from time to time on the justified grounds by competent authority and the delay in completion of renovation work of rooms was attributable mainly to convenience of guests, changes in drawing, finalization of fabric and wall paper, etc. As regards business loss, the same was worked out with a view to put pressure upon the agency undertaking renovation work and to counter theirs undue claims. The reply of the Management is not acceptable as lack of timely decision making in finalising the changes in drawings, etc., prolonged the renovation work, thus adversely affecting the occupancy of hotel, which is reflected in decrease in rooms nights sold as mentioned above. Moreover, the fact that quantification of business loss was done to put pressure on the agency, was mentioned for the first time in the reply to audit and is evidently an afterthought.

4.1.11.2 Non letting out of vacant premises

Oriental Bank of Commerce which was a tenant of HSV vacated the premises in December 2013. Despite receiving adequate prior notice of vacation, the Management delayed finalising the notice inviting tender for the new tenant by more than four months, leading to a loss of ₹ 11.95 lakh in rent. Further, though Andhra Bank, the new tenant was allocated the premises in October 2014, the Managing Director, CITCO, without BOD approval, permitted the new tenant to postpone possession till December 2014 and pay rent only from 18 April 2015, resulting in loss of rent income amounting to ₹ 25.96 lakh.

The Management stated (January 2016) that action to recover the rent from January 2015 was initiated.

[12] Based on the Management's assessment of loss of □ 1.04 crore for a delay of four months and after taking average occupancy rate of room sold during the period.

Similarly, Audit observed (August 2015) that a restaurant[13] with an area of 1,443.17 square feet. was lying unutilized since its closure in March 2014 and CITCO had not made any efforts to utilize or rent out the area having assessed rentable value of ₹ 16.89 lakh for the unutilized period of 13 months. The Management has not replied to the audit observation.

4.1.11.3 Star categorisation

HMV was classified as a five-star hotel in 2005 and reclassification of the hotel was due in 2015. However, it was noticed that the hotel was not conforming on several counts to the revised guidelines[14] of the Ministry of Tourism, GOI issued in June 2012 and December 2014. The Management stated (January 2016) that the five-star classification of the hotel was still pending with the Ministry.

HSV was renovated and upgraded in 2012, with several facilities and specifications conforming to a four star categorization. However, the Management had not initiated any process for getting the hotel classified appropriately.

4.1.12 Absence of energy conservation measures

(i) The BOD suggested (May 2014) that 'Energy Audit' be conducted in CITCO's hotels to identify the possible areas for energy conservation. Though this would have effectively reduced[15] energy use by 20 to 30 *per cent*, no energy audit was conducted. The Management stated (January 2016) that consultants were engaged for energy efficiency related analysis. The reply is not tenable as the consultants cited by the Management, were engaged for piece meal items of work carried out from 1999 to 2014 only in HMV and no comprehensive energy audit was undertaken in either of the two hotels.

(ii) The Government of India promotes clean energy by encouraging installation of Solar Water Heating Systems (SWHS) in hotels etc. However, HMV and HSV have not installed SWHS. Had this been done, the installation

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[13] Yangtse restaurant at Hotel Shivalikview.

[14] For example, providing iron and iron board in each room, availability of bookshop, utility and a souvenir shop, each bedroom door fitted with viewport/ peepholes, verification of staff, mandatory trained lifeguard at swimming pool, etc.

[15] As per Bureau of Energy Efficiency (BEE) under the Ministry of Power, GoI.

cost of ₹ 42 lakh[16] would have been compensated by the substantially reduced electricity expense of ₹ 171.96 lakh spent by both the hotels on operation of electric boilers for their hot water requirements in the three year period 2012-13 to 2014-15.

The Management replied (January 2016) that a study for installations of SWHS in hotels, undertaken earlier, ruled out the feasibility of installation of SWHS due to sloping roofs at HMV and non-availability of space at HSV and further stated (May 2016) that the vacant area of 7,685 square feet on the rooftop in HSV[17] is non load bearing having only 3" thick slab supported on girders.

However, a copy of the above mentioned study was not furnished to Audit. Moreover, the reply in the case of HSV is not tenable, as the Management itself had, in February 2015, acceded to the proposal of one of its licensees (Andhra Bank) to install solar panels for Solar UPS System on the rooftop of HSV. Further, CITCO had also tendered (November 2014) an area of 800 square feet for installing mobile tower on the roof top of HSV[18]. These facts contradict the Management's stand of non load bearing nature of the roof.

4.1.13 Conclusion

CITCO was successful in getting increased footfall in the Hotel Shivalikview after renovation, but Hotel Mountview could not maintain the market share in the five star hospitality business. Audit observed that profitability of hotel operations was adversely affected due to lack of long term business strategy, rigidity in tariff structure and resultant low occupancy**.** Controls were found lacking in automation of monthly information system for allowing discounts. There were instances of improper tax management, undue distribution of revenue as service charge and non-optimal utilisation of assets. The position was further aggravated by high manpower costs, inefficient energy management, lack of professional staff, suboptimal quality of services and inadequate business promotion activities.

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[16] Calculated at Haryana Renewable Energy Development Agency rate contracts of ₹ 8.40 lakh per SWHS of 5,000 lpd capacity in respect of requirement of around 15,000 litres per day (lpd) (@100 lpd per room at 70 *per cent* occupancy in respect of 155 rooms plus kitchen etc.) in HMV and 10,000 lpd in (@100 lpd per room at 70 *per cent* occupancy in respect of 108 rooms plus kitchen etc.) in HSV.

[17] A 10,000 litre per day capacity SWHS will require an area of about 3,229 square feet.

[18] HSV has a vacant space of 7,685 square feet on its roof top. A 10,000 litre per day capacity SWHS will require an area of about 3,229 square feet.

Five star classification of the Hotel Mountview is pending with the Ministry of Tourism and the Management had not initiated any process for getting four star classification for the Hotel Shivalikview. The hotels, particularly Hotel Mountview, need to adopt better and more efficient management practices to revive their market share.

The matter was reported to the Union Territory Administration in October 2015; their reply was awaited as of June 2016.

New Delhi	**(MUKESH PRASAD SINGH)**
Dated: 14 July 2016	**Director General of Audit**
	Central Expenditure

Countersigned

New Delhi	**(SHASHI KANT SHARMA)**
Dated: 15 July 2016	**Comptroller and Auditor General of India**