

Uttar Pradesh State Tourism Development Corporation Limited

2.4 Review on the working of the Uttar Pradesh State Tourism Development Corporation Limited

Highlights

Uttar Pradesh State Tourism Development Corporation Limited was incorporated in August 1974 for promoting tourism in the State with the role subsequently restricted (March 1975) to run the facilities (hotels, restaurants, water sports complex etc.) owned by it or transferred to it on commercial principles.

(Paragraph 2.4.1)

The Company failed to achieve the avowed objectives on account of inconsistent leadership due to frequent transfers of the Managing Directors and reluctance to implement the policies of the State Government.

(Paragraph 2.4.2)

As on 31 March 2003, the Company had 21 profit earning and 20 loss incurring hotels. The overall operating profit of hotels declined from Rs.1.83 crore in 1998-99 to Rs.1.43 crore in 2002-03 due to management's inaction to privatise unviable hotels, non-achievement of break-even-point and decline in occupancy ratio.

(Paragraph 2.4.5)

Despite heavy increase in the tourist inflow, the Company failed to attract tourists due to inadequate marketing arrangements and steep increase in tariff without ensuring matching quality of service.

(Paragraph 2.4.6)

Despite approval by the Board of Directors for privatisation of seven hotels, none of them could be privatised due to reluctance and inadequate follow up action resulting in loss of Rs.2.84 crore.

(Paragraph 2.4.13)

Introduction

2.4.1 Uttar Pradesh State Tourism Development Corporation Limited (Company) was incorporated on 5 August 1974 as a wholly owned State Government company with a view to promote tourism in the State. In March 1975, the Government restricted the role of the Company to activities of running the hotels and facilities developed by the Directorate of Tourism (DOT) and transferred to the Company for operation on commercial principles. The objectives laid down in the Memorandum and Articles of Association of the Company *inter-alia* provided for takeover/purchase/operation of hotels/restaurants by way of BOT¹, BOOT², BOOL³ and BOLT⁴ methodology providing transport facilities to tourists and disposal of Central/State Government properties.

¹ BOT denotes for build, operate and transfer

² BOOT denotes for build, own, operate and transfer

³ BOOL denotes for build, own, operate and lease.

⁴ BOLT denotes for build, operate, lease and transfer.

As on 31 March 2003, the Company was operating 41 hotels (including one restaurant), three Advance Reservation Centres (located at New Delhi, Calcutta and Mumbai) and four travel units (located at important tourist locations within the State) offering travel facilities and package tours to tourists.

Organisational set-up

2.4.2 The Management of the Company is vested in the Board of Directors (BOD) consisting of five directors nominated by the State Government. The day to day affairs of the company are looked after by a whole time Managing Director who has also been holding full time charge either as Director or as Director General of the DOT during the last five years. The Managing Director is assisted at the Headquarters by a General Manager, Company Secretary, Chief Accounts Officer and a Project Officer. Field units like hotels and travel units are normally being looked after by the Managers working directly under the supervision of the Corporate office.

The post of the Managing Director was held by eight incumbents during a period of five years up to March 2003, with terms ranging from six to 18 months. Frequent changes in the incumbency resulted in lack of initiative at the top level to formulate and implement any long term action plan for improvement in the working which is evident from the absence of any long term corporate plan with milestones for achievements thereagainst.

Scope of Audit

2.4.3 Activities relating to liquor trade undertaken by the Company during 1992-93 at Agra, were reviewed by the Comptroller and Auditor General of India in the Audit Report (Commercial) for the year ended 31 March 1993 and was discussed by the Committee on Public Undertakings (COPU) during June 1998 to October 1999; their recommendations are awaited (October 2003).

Present review carried out during the period February 2003 to April 2003 generally covers the performance of the Company during the last five years ending 2002-03 with special thrust on the implementation of the Tourism Policy of the State (1998).

The records maintained at the Corporate office, and out of 41 tourist hotels and four travel units, the working of eight hotels located in Agra, Varanasi, Lucknow, Allahabad and Raebareli districts and one travel unit (Lucknow) having annual turnover exceeding Rs.10 lakh were selected for examination. The audit findings are discussed in succeeding paragraphs:

Financial position and working results

2.4.4 The financial position and working results of the Company for the years 1998-99 to 2002-03 are given in *Annexure-35* and *Annexure-36* respectively.

The value of assets and liabilities and working results indicated in the *Annexure-35 and 36* are to be viewed in the light of the following:

- Final purchase consideration of eight tourist bungalows transferred to the Company in 1977-78 by the State Government at provisional sum of Rs.24 lakh, still remained undecided (October 2003) although the assets stood capitalised in the accounts at the provisional sum.
- Eighteen tourist bungalows which were transferred by the DOT in March 1991 at a total cost of Rs.3.81 crore, in anticipation of State Government sanction,

Frequent changes of Managing Directors resulted in lack of initiative to formulate and implement long-term corporate plan

have not so far been approved by the Government (October 2003). The amount stood capitalised in the Company's accounts at the above provisional sum.

- The net worth of the Company had substantially declined in 1999-2000 due to change in the basis of accounting of gratuity and leave encashment from cash to accrual basis resulting in increase in loss by Rs.2.35 crore.
- The nominal profit earned by the Company during 1998-99 turned into loss from the year 1999-2000 due to continuous increase in the total operating expenses over the total income.

Operational performance of hotels and restaurants

2.4.5 The performance of hotels in operation for the last five years ending 2002-03 are given in *Annexure-37*. The table below summarises the working results of the hotels (profit earning and loss incurring hotels) for the last five years ending 2002-03:

Year	Profit earning hotels				Loss incurring hotels				Overall Profit
	No. of hotels	Turnover	Profit	Percentage of profit to turnover	No. of hotels	Turnover	Loss	Percentage of loss to turnover	
1998-99	21	880.95	231.17	26.24	30	111.39	47.88	42.98	183.29
1999-00	21	946.05	235.51	24.89	31	145.17	45.50	31.34	190.01
2000-01	22	1047.61	236.15	22.54	30	120.85	44.18	36.56	191.97
2001-02	23	1019.13	192.82	18.92	16 ¹	80.71	27.77	34.41	165.05
2002-03	21	1013.23	187.94	18.55	20 ²	98.59	44.98	45.62	142.96
Total		4906.97	1083.59			556.71	210.31		873.28

(Rs. in lakh)

The main reasons for the losses/decline in overall profit, as analysed in audit, were:

- operation of units contrary to the Board of Directors' directives for privatisation;
- decline in occupancy; and
- heavy shortfall in sale volume to achieve break even as discussed in paragraphs 2.4.6, 2.4.14 and 2.4.15 respectively.

Declining occupancy of hotels

2.4.6 Out of 21 profit earning hotels having aggregate annual turnover of Rs.8.81 crore, as on 31 March 1999, the performance of seven hotels having aggregate turnover of Rs 5.28 crore (60 per cent) declined over the period of five years in terms of occupancy as well as profit. The summarised position of such decline, compared to the achievement of 1998-99 is given below:

Name of the unit	1998-99			2002-03			Decline in percentage	
	Turnover	Profit	Occupancy (per cent)	Turn over	Profit	Occupancy (per cent)	Profit	Occupancy
Gomti, Lucknow	232.43	66.52	55.53	225.88	21.75	44.80	67.30	10.73
Kushinagar	34.31	15.14	17.19	23.84	0.60	9.00	96.04	8.19
Allahabad	103.27	36.06	60.98	117.68	25.66	41.87	28.84	19.11
Varanasi	70.34	10.49	61.80	70.55	9.10	47.34	13.25	14.46
Fatehpur Sikri	23.37	4.19	13.73	14.99	(-)5.85	7.31	239.62	6.42
Moradabad	49.16	14.83	71.00	56.50	14.24	44.20	3.98	26.80
Sonauli	15.23	2.63	44.25	12.69	(-)0.85	27.00	132.32	17.25
Total	528.11	149.86		522.13	64.65			

(Rs. in lakh)

¹ excluding 11 hotels closed during 2001-2002.

² excluding 12 hotels closed upto March 2003.

Audit Report (Commercial) for the year ended 31 March 2003

During audit the following points were noticed:

- The percentage of tourists staying in the Company's hotels had substantially declined over the period of five years ending 2002-03 as would be seen from the table given below:

Despite heavy increase in tourist inflow, the Company failed to attract tourists

(Number of tourists in lakh)

Name of the hotel	1998-99			2002-03		
	Tourist arrival ¹ at destination	Tourist staying in the hotel	Percentage of tourists staying in hotel to total arrival	Tourist arrival at destination	Tourist staying in the hotel	Percentage of tourists staying in hotel to total arrival
Gomti, Lucknow	5.12	0.26	5.08	7.83	0.21	2.68
Kushinagar	1.02	0.07	6.86	1.21	0.04	3.31
Allahabad	74.19	0.24	0.32	123.30	0.17	0.14
Varanasi	3.76	0.19	5.05	26.87	0.15	0.56
Fatehpur Sikri	3.02	0.02	0.66	19.85	0.01	0.05
Moradabad	1.40	0.07	5.00	2.08	0.05	2.40
Sonauli	0.81	0.12	14.81	0.48	0.07	14.58

The occupancy of the above hotels had declined in spite of heavy increase in the tourist inflow (except at Sonauli). The Management had not analysed the reasons for decline in preferences of tourists for the Company's hotels.

Steep increase in tariff without improving quality of service resulted in decline in occupancy

- In the absence of any parameter for ensuring matching quality of service with the private hotels, the steep increases in tariff introduced considering the prevailing rates of similar hotels in private sector, proved counter productive and resulted in decline in occupancy of the hotels as can be seen from the table below:

(In per cent)

Name of hotel	Date of revision	Range of increase over existing rates	Pre-revision occupancy	Post revision six monthly occupancy
Gomti, Lucknow	April 1998	29-50	63.54	58.37
	October 1999	8-33	55.53	51.03
	October 2001	(-) 3 - (-)15	42.53	44.75
Kushinagar	April 1998	70	13.42	10.27
	October 1999	33-36	17.19	16.43
	October 2001	12.50-13.33	11.73	8.10
Allahabad	October 2001	21-30	60.94	41.92

It would be observed from the table above that in case of Gomti hotel Lucknow, the increase in October 1999 was rolled back in October 2001. As a result, occupancy level increased by 2.22 per cent. Increase in the tariff and then withdrawing the same indicated the lack of any firm policy in this regard. Further the Company had also not analysed the various services and quality of such services being provided by other private hotels vis-à-vis its own hotels.

¹ Source: Directorate of Tourism, Government of Uttar Pradesh.

Tourism Policy of the State and its implementation

Tourism Policy of the State

2.4.7 Of the large number of activities authorised in the Memorandum and Articles of Association, the priorities of the Company are governed by the directives issued by the Government through the long term Tourism Policy of the State Government under which the Company is assigned a specific role. The Tourism Policy (Policy), announced in December 1998, laid emphasis on development of tourism as main industry by improving the quality of the industry and expressly entrusted the following responsibilities to the Company:

- Upgradation and extension of facilities of important units located on the five circuits¹ and making them suitable for foreign tourists by securing star status.
- Privatisation of units considering its necessity.
- Operation of only profitable units in future and privatisation of units expected to incur losses.
- Formulation and operation of profitable package tours with the assistance of other hotels and tour operators.
- Execution of agreements with domestic and foreign tour and travel agencies of repute, for attracting more tourists.
- Providing regular training to personnel, for extending better services to customers.

Implementation of the State Policy on Tourism

2.4.8 The Company had not identified critical areas of the Policy to effect micro level planning and had also not fixed the milestones to be achieved during the long term as well as in short term. In absence of any parameter and time frame for ensuring implementation of the Policy, the backlog in achieving the objectives remained unreviewed by the Management.

Upgradation and extension of facilities

Upgradation of facilities to secure star status

2.4.9 In the Policy document, the State Government had not earmarked any fund for upgradation of facilities. The Policy envisaged financial assistance by way of share capital, loan and Central Government assistance on submission of proposals by the Company.

To secure star status, the minimum facilities required in a hotel are given in **Annexure-38**. The Company already secured (up to 1997-98) three star status for one of its hotel². It could further secure star status for only three hotels³ during the period of five years ending 2002-03.

In spite of lapse of over four years of the Policy, none of the hotels of the Company in two circuits (Buddha and Vindhya circuits) has star grade facilities to attract foreign tourists. The Company had not taken up any detailed exercise to identify the potential hotels requiring upgradation and also not analysed cost-benefit from such upgradation.

The Company did not make adequate efforts to secure star status for 12 hotels

¹ Buddha, Avadh, Vindhya, Bundelkhand and Braj (Agra-Mathura)

² Gomti Hotel, Lucknow - Avadh Circuit.

³ One star in Jhansi-Bundelkhand Circuit, Two stars in tourist bungalows Agra and Fatehpur Sikri-Braj Circuit.

The table below indicates the number of hotels in each circuit and number of viable hotels having adequate number of rooms for securing star status.

Name of the circuit	No. of Hotels	No. of viable hotels	Actual no. of hotels having star status
Avadh & Misc.	16	5	1
Bundelkhand	6	3	1
Vindhya	2	2	-
Braj (Agra-Mathura)	8	3	2
Buddha	9	3	-
Total	41	16	4

The Company had, however, not made any effort in providing the facilities to secure star status in the viable star hotels nor had framed (October 2003) any plan in this regard.

Decrease in hotel facilities

2.4.10 During the period of five years ending 2002-03, only four hotels were added but effective operating hotels had declined substantially from 51 hotels in 1998-99 to 41 hotels in 2002-03 due to transfer of two hotels to Uttaranchal and closure of 12 hotels (11 hotels in 2001-02 and one in 2002-03) due to failure of the Management to run them efficiently.

Increase in bed capacity of hotels

2.4.11 As against 596 rooms with 1506 bed capacity as on 1 April 1998, the capacity of operating hotels as on 31 March 2003 was 601 rooms with 1516 beds after adjusting the loss of capacity in units closed/transferred during 2001-02 and 2002-03 indicating thereby negligible addition in capacity over a period of five years.

It was further noticed that increase in capacity to the extent of 18 rooms with 28 beds (out of total increase of 50 rooms with 90 beds) in four hotels, was unwarranted in view of low occupancy as would be seen from the position given in the following table:

Capacity of four hotels already having low occupancy were expanded

Name of hotel	Pre- expansion capacity		Pre- expansion occupancy percentage	Expanded capacity		Post -expansion occupancy percentage for 2002-03
	No of rooms	No of beds		No of rooms	No of beds	
Kushinagar, Deoria	36	102	19.40	41	92 ¹	9.0
Niranjana, Sonauli	12	48	55.82	20	76	27.0
Sravasti, Baharaich	2	4	17.70	4	8	5.34
Kadamb, Mathura	8	16	23.60	11	22	15.11
Total	58	170		76	198	

Thus, the increase in capacity of these hotels where the capacity remained partially utilised (less than 50 per cent), led only to blockade of Government funds without serving the intended purpose either to the tourists or to the Company.

During discussion (September 2003), the Management accepted the audit observation and assured that the extension of capacity in future would be restricted to hotels having high occupancy and potential for attracting more tourists.

¹ Bed capacity decreased due to conversion of 20 bed dormitory into banquet hall/store room.

Extension of wayside facilities

Lack of co-ordination between the Company and the Directorate of Tourism resulted in blockade of Rs.2.76 crore in construction of 12 midway facilities that could not serve the intended purpose.

2.4.12 The development of tourist facilities including planning, selection of site and its construction are carried out by the DOT. After development of the facilities, the same is transferred to the Company for commercial operation. There was no coordination between the DOT and the Company as the former did not consult the Company while selecting the place and site for locating new units.

The DOT developed (between 1998 and 2001) 12 midway facilities (comprising restaurants with limited accommodation) out of Central assistance of Rs.2.41 crore and State assistance of Rs.35.07 lakh. The Company did not initially agree to take over the facilities on grounds of units being commercially unviable but subsequently decided (September 2001) to takeover these facilities as per the State Government directives. It was further decided by the Company, not to run these units but to make efforts to lease them out on five years management contract basis. The facilities have, however, neither been taken over so far (September 2003) nor were any efforts made to lease them out as per the decision of the BOD.

Thus, the expenditure of Rs.2.76 crore incurred by the DOT could not serve the intended purpose and the entire amount remained blocked.

Progress in privatisation of units**Progress in privatisation prior to 1998**

2.4.13 The Government approved (December 1993) and vested full powers in BOD of the Company to lay down and decide the terms and conditions and procedure in respect of 15 units, already identified for privatisation. The Sub-Committee of the BOD initially considered (May 1994) the offers for seven hotels and recommended (November 1994) acceptance of the following offers:

Name of the unit	Name of the licensee	Period of license	Annual License fee	
			Period (Years)	Amount (Rs.in lakh)
Hotel Taj Khema, Agra	Indian Hotel Company, New Delhi	30 years	1-5	45.00
			6-10	55.00
			11-15	65.00
			16-30	75.00
Tourist Bungalow Jagdishpur, Sultanpur	Mohan Hotels , Lucknow	30 years	1-10	1.30
			11-20	1.50
			21-30	1.70
Five Tourist Bungalows at Mathura	NVP Caterers and Hotelliers, Mathura	30 years	1-5	8.63
			6-10	10.79
			11-20	11.86
			21-30	13.04

Although, the BOD approved (April 1995) the proposal, the Company could not lease out any property. The summarised position of Management's action and audit observation on follow up action is given below:

Name of the unit	Position of action taken as informed to the Board (November 1995)	Audit observation
Hotel Taj Khema, Agra	The land comes under the Reserve Forest and therefore necessary amendment in conservation of forest land has been initiated and agreement would be signed thereafter	The said land was transferred in May 1978 by the Forest Department to the DOT and the construction over the said land was completed before Forest Conservation Act, 1980 came into force. Accordingly, the Company was in a position to lease out the land.
Tourist Bungalow Jagdishpur, Sultanpur	Execution of agreement with the approved party is underway.	The agreement has not been executed so far (September 2003)
Five Tourist Bungalows at Mathura	Decision to cancel the award was taken considering the financial status of the firm and their inability to deposit annual lease rent in advance.	The Board directed (November 1995) for floating fresh tenders. The action has not been taken so far (September 2003).

Despite approval, privatisation of seven hotels could not take place due to reluctance of the Management

Thus, none of the units could be privatised due to reluctance and lack of adequate follow up action by the Management. These units were being operated at nominal profit/loss as compared to the lease rates of tenders, as per comparative position given below:

(Rs. in lakh)				
Name of the unit	Period	Aggregate lease rent receivable as per tender	Cash Profit earned (+)/ loss (-) incurred	Overall loss incurred
Taj Khema, Agra	1997-98 to 2001-02	235.00	(+) 37.78	197.22
Jagdishpur	1997-98 to 2001-02	6.50	(-) 13.79	20.29
Five Tourist Bungalows at Mathura	1997-98 to 2001-02	45.31	(-) 21.44	66.75
Total		286.81	(+) 2.55	284.26

The company could have earned additional revenue of Rs 2.84 crore, had the assets been leased out.

Progress in privatisation from 1998

2.4.14 On the basis of response of the buyers and the constraints noticed against tenders floated in 1994-95, the Company belatedly submitted (January 1998) a proposal to the State Government seeking general approval of the guidelines and terms and conditions for privatisation. The terms of privatisation were approved (July 1998) by the Government as suggested by the Company.

As per the guidelines, the Company was appointed as an agent of the State Government for the disposal of the properties of the DOT by way of 90 years lease. In case of non-receipt of offers, the properties were to be leased out for short term of 30 years or otherwise given to the Management on contract basis for five years. The properties financed by the Central Government or developed on land belonging to other departments could be given on five years management's contract only.

The procedure, for disposal of assets, were to be determined by the BOD of the Company but the Government owned properties could be disposed off only with the approval of the Government.

After approval (July 1998) of the terms and guidelines by the State Government, the Company had not floated any tender to proceed further in the matter so far (September 2003). Even the guidelines and pre-qualification criteria had not been laid down so far (September 2003) as prescribed in the Government order. Further, the Company also did not invite any open Expression of Interest (EOI)/pre-qualification from prospective buyers to assess the responsiveness of the prospective buyers, especially for low potential units. The Company without any realistic assessment, approached (April 2000) the State Government to effect certain minor changes in the Government order along with permission for allowing two additional modes for disposal of assets, as stated below:

- Authorising the Company to enter into "Build, Operate and Transfer" and "Build, Operate, Lease and Transfer" system so as to attract capital for development of infrastructure
- Delegation of full powers to the Board of Directors in finalisation of management contract for Government owned properties.

The approval of the State Government was awaited (September 2003). Meanwhile, the Company had not initiated any action for want of approval of the Government to the reference made by it.

During the last nine years, the Company could, however, finalise lease for restaurant in hotel Taj Khema, Agra and a short term lease of two years for water sports complex at Lucknow which was too meager in relation to 20 units.

Further, the Company commenced operation of two unviable hotels (Shikohabad and Chunar) taken over in 1997-98 and 1998-99 from DOT. The BOD approved (September 1998) the privatisation of these two hotels but no action was taken by the Management to explore the possibilities of leasing out. Reply of the Management (July 2003) that these hotels were taken over as per the directives of the State Government does not hold good as the inaction on the part of the Management to act as per decision of the Board of Directors resulted in operating these hotels at a cash loss of Rs.25.69 lakh (aggregate income Rs.13.42 lakh and aggregate expenditure Rs.39.11 lakh).

Thus, the ground realities and problems to the complex issue of privatisation, remain undetermined. The negligible progress in privatisation over a period of eight years was indicative of apathy of the Company to pursue the State Policy for privatisation of loss incurring units.

Management stated (August 2003) that the procedure for privatisation would be undertaken after issue of amendment to the privatisation policy. The reply is not tenable as the Company had neither made any effort to devise modalities for privatisation before proposing the additional modes nor furnished details of units, if any, viable in the light of additional modes while submitting the proposal to the State Government so as to facilitate in taking decision.

Operation of loss incurring units

2.4.15 The Company has been operating loss incurring units contrary to the Tourism Policy (1998) even without formulating and implementing any specific plan for improving the working of these units. As a result, in case of nine out of 20 loss incurring hotels as on 31 March 2003 the Company incurred losses aggregating Rs.73.73 lakh during 1999-2000 to 2002-03 as would be seen from the summarised operating results given below:

(Rs. in lakh)

Sl. No.	Name of the unit	Aggregate turnover	Aggregate expenses	Aggregate loss	Range of annual occupancy during last 4 years (in Percentage)
1.	Shahjahanpur	30.83	41.27	10.44	44-49
2.	Sravasti	1.65	9.53	7.88	5-6
3.	Tatiaganj	14.38	24.13	9.75	22-37
4.	Kapilvastu	1.50	7.79	6.29	1-6
5.	Deogarh	0.38	2.21	1.83	7-10
6.	Jagdishpur	13.08	23.13	10.05	34-53
7.	Neemsar	7.01	18.85	11.84	14-33
8.	Sikohabad	6.26	15.80	9.54	21-52
9.	Mahoba	20.34	26.45	6.11	20-27
	Total	95.43	169.16	73.73	

The Company continued the operation of loss incurring units and failed to achieve the avowed objectives

Out of the above nine hotels, five hotels¹ would practically not be able to meet out their establishment cost even at occupancy of 70 per cent (highest ever achieved by any of the Company's hotel during the last five years).

¹ Neemsar, Tatiaganj, Jagdishpur, Shikohabad and Shahjahanpur.

The indiscriminate continuance of operation of loss incurring units without seeking approval of the State Government was not only violative of Government policy but also resulted in loss to the Company.

Operation of newly acquired unviable units

2.4.16 In terms of State Government directives, the Company acquired four units from the DOT between April 1999 and January 2003. Out of these four units, two units (Tourist Bungalow Sankisa and Yatri Nivas, Ayodhya) were found (January-February 2001) unviable for operation by the Management while the viability of other two units (Tourist Bungalow, Bateshwar and Yatri Nivas, Allahabad) were not assessed. The Company, however, put all these units on commercial operation in contravention to the Policy to operate only profitable units in future and privatise units anticipated to incur loss. The operation of these units proved to be loss incurring venture and that too without making any meaningful contribution for tourists, as can be seen from the accumulated position up to 2002-03 given below:

Name of the units	Year of commencement	Total income earned	Loss incurred	Percentage of maximum occupancy	Bed capacity
		(Rs. in lakh)			(Nos.)
Tourist Bungalow-Bateshwar, Agra	1999-2000	1.42	9.82	2-6	12
Tourist Bungalow-Sankisa	2002-03	0.05	2.83	nil	4
YatriNivas-Ayodhya	2002-03	0.59	0.16	1.5	60
YatriNivas-Allahabad	2002-03	0.31	2.07	12	60
Total		2.37	14.88		

The loss of Rs.14.88 lakh could have been avoided, had the Company not put these units on commercial operation.

Formulation and operation of package tours with the assistance of other hoteliers and tour operators

2.4.17 The Company had formulated 42 package tours to facilitate the tourists in accessing various destinations. The table given on the next page indicates the operating results of the package tours for the last five years ending 2001-02:

(Rs. in lakh)

Year	Income	Expenditure	Profit
1997-98	20.28	18.80	1.48
1998-99	33.10	17.69	15.41
1999-00	54.40	35.12	19.28
2000-01	65.18	41.40	23.78
2001-02	73.06	48.11	24.95

In this connection following points were noticed:

- The Company had not maintained package-wise income and expenditure to review the profitability and growth in case of each package with a view to taking remedial action.
- The operation of the tours has been confined to five packages only. Of these, two local site-seeing and one package operating from Lucknow, Agra and Delhi were managed by the local units of the Company located at originating stations whereas two remaining packages were operated within the state of Uttaranchal by the Company's agent. The rest of the 37 packages were not operated at all

during the last five years in absence its own marketing network and tie up with any hotel and tour operator.

Management stated (September 2003) that these packages were offered to tourists on their demand. The reply is not tenable since the Management did not make any effort to market the package tours formulated by it. Moreover, this approach of the Management was not in consonance with the Tourism Policy.

- The Company had never floated any tender for appointment of local travel agents of resource and proven capability for promoting unoperated packages. Even the travel agent for the two packages, which were the main contributory to the income under this head, was appointed against its *suo motto* offer to the Company.
- Although, the Company had eight marketing agents outside State to procure bookings for its hotel accommodation, the Company had not considered tie up with them for procuring package tours. In September 2001, the Management decided that booking for the tour packages would be obtained through its marketing agents but such an arrangement has been finalised with only one party so far (September 2003).

The operation of tour packages to attract tourists and promote tourism, remained localised and could make little headway in view of Company's failure to appoint tour operators/agents for promoting the business as contemplated in the Tourism Policy.

Execution of agreements with domestic and foreign agencies of repute for attracting more tourists

2.4.18 Travel and marketing agents play a pivotal role in promotion of tourism by providing facilities of advance reservation of accommodation and travel facilities for tourist destinations. Accordingly, the Policy also laid emphasis on extension of marketing network through domestic and foreign agents of repute to attract tourists.

Procurement of business through internal sources

2.4.19 The Company had a network of six Advance Reservation Centres (ARC) (reduced to three from July 2002) located outside the state and four travel units operating in the name of UPTOURS within the state to provide advance booking of accommodation in the hotels of the Company and also operate tour packages assigned by the Corporate office.

The volume of business procured by the ARCs and net inflow to the Company on this account during the last five years ending 2001-02 are given in *Annexure-39*. A review in audit of the performance of ARCs, revealed that the Company closed down (July 2003) three ARCs (Chandigarh, Ahemdabad and Chennai) on the grounds of poor business secured by them as well as the fact that their income (by way of commission @ 10 per cent of the booking amount) failed to meet their overhead expenses.

The ARCs were closed without any alternative arrangement like entering into marketing tie up with agents so as to tap potential customers and to make good the loss of business.

Procurement of business through external sources

2.4.20 The Company has not so far (September 2003) floated any tender for appointing marketing agents. All the eight agents were appointed by the Company

at the *suo motto* offer of the agents. Such agents, appointed without any publicity and without determination of pre-qualification criteria, could contribute only nominal business during the period May 1999 to December 2002, as would be seen from the agent-wise position given on the next page :

Sl. No.	Name of Agent	Date of agreement	Due date of expiry of agreement	Value of business procured from date of agreement to December 2002 (Rs. In lakh)
1	M/s Himalchura Travel and Tours, Kolkata	May 1999	May 2003	1.61
2	M/S Linc India Tours and Travels, Kolkata	September 1999	September 2003	2.05
3	M/s Simas, Pune	November 2000	November 2004	2.66
4	M/s Balbir Travel Service, Hardwar	June 2001	June 2003	0.14
5	M/s Akshaya Suvidha, Pune	July 2001	July 2003	0.04
6	M/s Ramkrishna Travels, Kolkata	August 2001	August 2003	0.44
7	M/s Swastik Tours & Travels, Kolkata	February 2001	February 2003	Nil
8	M/s Hotel Roychak, 24 Paragana, (WB)	July 2002	July 2004	0.01

In this connection following were noticed:

- The dismal performance of the agents failed to invite attention of the Management for taking any remedial action by appointing domestic and foreign agents of repute through open tender after laying down pre-qualification criteria.
- The network of marketing agents outside the State was confined to eight agents in three States (five in West Bengal, two in Pune and one in Uttaranchal). No action had been initiated to procure business from other States/Districts either by extending its own marketing network or through appointment of marketing agents in such unrepresented States.
- Although, the Company executed Memorandum of Understanding with State Tourism Corporations of seven States between March 2001 and August 2002 for providing business on mutual basis for a period of two years, the arrangement failed to work as none of the party could muster and provide business. Meanwhile the Memorandum of Understanding with West Bengal Tourism Corporation had already expired in March 2003 without any effort for renewal of the term.

Thus, the Company had failed to take initiative in terms of the Policy, which authorised appointment of domestic and foreign agents of repute to attract tourist. The Company has so far (September 2003) not even finalised pre-qualifications for eligibility of tenderers, leaving aside, the floating of tenders.

Manpower Management

Staff Deployment

2.4.21 The table below indicates the sanctioned and the actual staff availability position as on 31 March 2003:

Sl. No.	Category of staff	Sanctioned strength	Actual Regular staff	Shortage	No. of daily wagers
1	Managers	37	32	5	NIL
2	Front office Assistant	40	14	26	5
3	Food & Beverage Assistant	11	6	5	2
4	Room boy/ Waiters	203	112	91	40
5	Commiss I,II,III	164	80	84	23
6	House Keeping/Room Attendant	13	11	2	NIL

Deployment of unsuitable staff resulted in poor performance of hotels

Due to shortage of staff, the Company had been deploying staff of other job descriptions for managing specialist functions of front office, food and beverage departments and house keeping. The audit findings in this regard are as under:

- There were 17 hotels (including four¹ hotels having annual turnover between Rs.30 lakh and Rs.55 lakh) as on 31 March 2003, which were being managed by personnel below Manager level. It was seen that one² of these four hotels had annual foreign tourist arrival of 336 to 814 during 1999-2000 to 2002-03, representing 21 to 36 *per cent* of total tourist arrival of the hotel.
- A review of staff deployment position as on 31 March 2003 (*Annexure-40*) in top 12 hotels of the Company having annual turnover ranging between Rs.15 lakh to Rs.1.17 crore, indicated that even the key posts in these important hotels were vacant.

It would be seen that, although four important hotels at Varanasi, Fatehpur Sikri, Taj Khema (Agra) and Kushinagar involved substantial foreign tourists arrival in the hotel, yet all the key duties were being performed by persons of other job descriptions/ daily wagers, thereby adversely affecting quality of service which leads to poor impression being carried by the tourists.

Internal Audit /Internal Control

2.4.22 The Company does not have its own Internal Audit Wing nor has framed Internal Audit Manual. It has, however, framed Accounting Manual.

The internal audit of the Company is conducted by the firms of Chartered Accountants appointed for one or more of its accounting units.

The scope of audit conducted by Chartered Accountants firms cover tax audit, propriety audit as well as ensuring the compliance of policies, procedures and sanctions issued by the Management and accountal of transactions in accordance with the accounting manual. The firms are provided with the detailed check lists for audit and are required to submit quarterly, half yearly and yearly reports to the Management within the dates prescribed for submission of each report. The important findings are brought to the notice of the Managing Director through Chief Accounts Officer. The Management had been taking adequate follow up action on reports of the internal auditors.

It was noticed in audit that the Management did not explore the possibility of setting up Internal Audit Wing comprising its own employees.

Conclusion

The Company could not achieve the avowed objective of running its facilities on commercial principles as it failed to privatise loss incurring hotels or improve working of unviable facilities. The Company was consistently running into losses on account of unsuitable staff deployed for running the hotels, reluctance to pursue tourism policy and lack of strategy and initiative to undertake commercially viable projects.

The Company needs to evolve and implement measures to improve inflow of tourists.

¹ Jhansi, Moradabad, Hindon-Ghaziabad and Taj Khema-Agra.

² Taj Khema-Agra.