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FINANCIAL SUSTAINABILITY OF URBAN LOCAL BODIES: A COMPARATIVE EVALUATION OF LUCKNOW AND VARANASI

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The 74th Constitutional Amendment Act of 1992 recognizes urban local bodies in India and enables them to function as institutions of self-government. Municipal corporations are central to democratic governance, particularly in a large and rapidly urbanizing country. Their effectiveness depends on financial capacity, as local responsibilities must be supported by adequate resources. Sound accounting and financial management help municipal administrations plan, monitor, and regulate service delivery responsibly. However, the Act has not been implemented in reality. This study presents a comparative assessment of the financial performance of Lucknow Municipal Corporation (LMC) and Varanasi Municipal Corporation (VMC). It analyzes major revenue and expenditure components to evaluate financial management efficiency. One-Way ANOVA is used to test whether differences in selected financial indicators are statistically significant. The findings slow clear differences in revenue structures, expenditure patterns, and overall fiscal capacity. The analysis highlights persistent fiscal capacity. The analysis highlights persistent fiscal gaps and scope for stronger municipal financial reforms nationwide.

KEYWORDS: ***Urban Local Bodies, Municipal Finance, Revenue-Expenditure Analysis, Lucknow, Varanasi***

I. INTRODUCTION

Decentralization means reorganizing the system of government so that power and duties are shared fairly among different levels of government. An important part of this process fiscal decentralization, which focuses on improving how government finances are manages and made accountable. It clearly explains which level of government is responsible for raising and spending money, whether it is the national, state, or local level. Through fiscal decentralization, local governments are given the authority to collect their own taxes and generate income, instead of depending completely on financial support from the central government. This financial independence helps local bodies manage their budgets more carefully and enables them to respond better to the needs and priorities of local people.

A major step taken by the Government of India to strengthen municipal governance and support urban development was the introduction of the 74th Constitutional Amendment Act in 1992. Prior to this amendment, local governments had unclear roles and limited autonomy, as State Governments exercised strong control over their functions and could change their responsibilities through executive decisions without amending laws (Sharma, 2020). Although the 74th Amendment clearly lists the functions to be performed by Urban Local Bodies (ULBs), it does not specify assured or independent sources of revenue for them (Bhattacharyya & Bandyopadhyay, 2012). As a result, State Governments continue to decide the powers and responsibilities of ULBs, leading to wide differences in their functioning across states.

The amendment intended to strengthen the financial capacity of ULBs by expanding their taxation powers. However, in reality, ULBs have not received significant new taxing authority and continue to depend largely on traditional sources of income. While they are expected to carry out a wide range of civic functions, their limited revenue base makes this task challenging. As highlighted in reports by the Reserve Bank of India on municipal finance, municipal corporations depend heavily on grants from the Central and State Governments to meet their routine expenses. This heavy dependence, particularly on property tax, limits their ability to develop other sources of income such as trade and professional licenses, entertainment taxes, charges on mobile towers, user fees for services like solid waste management and water supply, and innovative mechanisms like value capture financing.

Revenue expenditure includes costs associated with delivering vital services such as waste management, water harvesting and sanitation, public health, safety initiatives, public works, and education and Capital expenditures refer to investments in long-lasting assets and infrastructure. This includes things like roads, bridges, water supply systems, sewage facilities, public buildings, parks, and waste management systems.

In this context, evaluating the financial performance of municipal corporations becomes crucial. A clear understanding of revenue patterns, expenditure behaviour, fiscal imbalances, and resource utilisation helps in assessing how efficiently an urban local body is functioning. It also highlights strengths and gaps that require policy attention. Lucknow and Varanasi, two major urban centres in Uttar Pradesh, have been undergoing rapid demographic and economic transformations.

Despite their importance, both cities face challenges such as rising population pressure, increasing demand for civic amenities, and limited financial resources. These issues make it necessary to study how well these corporations mobilise revenue, allocate expenditure, and sustain financial stability.

II. OBJECTIVES

The paper aims to attempts a comparative analysis of the finances of Lucknow Municipal Corporation and Varanasi Municipal Corporation to understand their financial management practices and identify the areas that require improvement. By analysing major income and expenditure indicators, the study aims to offer insights that can contribute to strengthening municipal finances and promoting better urban governance.

III. DATA AND METHODOLOGY

The analysis of municipal finances first looks at the present financial status of municipal bodies in providing civic amenities, which are carried out in terms of current spending. The revenue and expenditure sides of municipal finance are then analysed in terms of the growth. A comparative approach is used to evaluate the performance of Lucknow Municipal Corporation (LMC) and Varanasi Municipal Corporation (VMC), relying on absolute financial figures to highlight similarities and differences between the two.

To make the financial data more reliable for comparison, the Gross District Domestic Product (GDDP) deflator is applied to the municipal revenue figures. For this purpose, GDDP data for Lucknow and Varanasi at current and constant prices for the base year 2010–11 are used. The ratio of GDDP at current prices to constant prices is calculated for each year in the study period, which forms the basis for constructing the deflator.

Secondary data has been collected from budget documents of selected municipal corporations for the period of 2014-15 to 2023-24 is taken for the study. Data on revenue income and expenditure and capital income and expenditure have been considered for the analysis. For analytical purpose, 10 heads of revenue income, four heads of revenue expenditure, four heads of capital expenditure and three heads of capital income are taken for selected municipal corporations and have been analysed through ANOVA (one way).

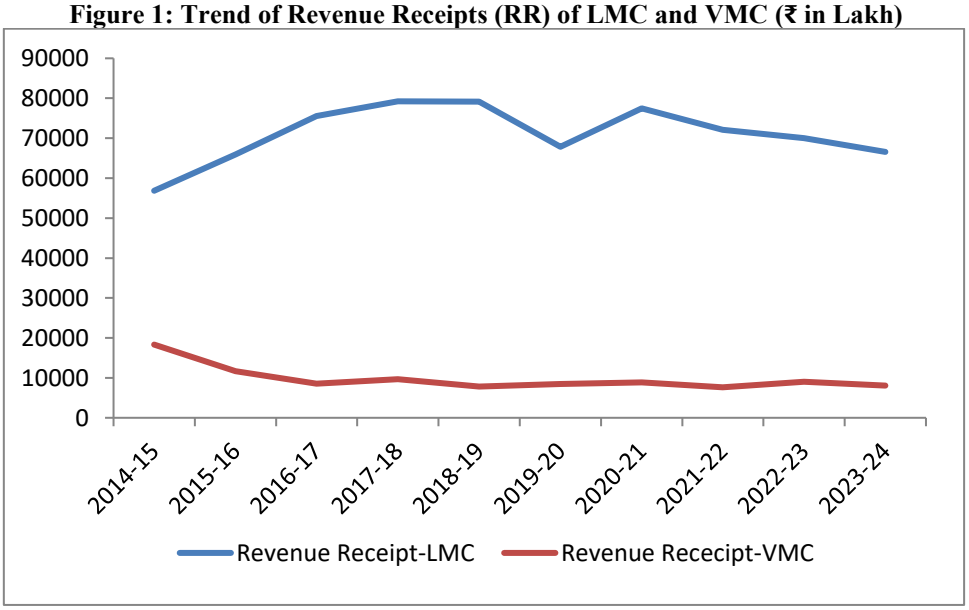
IV. RESULT AND DISCUSSIONs

Comparative analysis of Financial Position of selected municipal corporations

Total Revenue Receipt of LMC and VMC

This section deals with the main revenue source of municipal corporations, which together constitute their revenue income. Revenue income comprising of tax revenue, non-tax revenue, assigned revenue, and various forms of revenue grants.

Figure 1: Trend of Revenue Receipts (RR) of LMC and VMC (₹ in Lakh)



Source: Author's own construction

The figure presents the trend of revenue receipt of Lucknow Municipal Corporation (LMC) and Varanasi Municipal Corporation (VMC) from 2014-15 to 2023-24. LMC records a steady rise in revenues up to 2018-19, followed by a decline and moderate recovery, after which receipts show a gradual slowdown. Despite these changes, LMC consistently maintains higher revenue levels throughout the period, indicating a stronger fiscal capacity. In contrast, VMC's revenue remains comparative low with only marginal variation and no sustained growth. The continuing gap between the two corporations reflects differences in their revenue base and financial capacity with LMC remaining fiscally stronger than VMC.

TABLE 1: ANOVA TEST OF TOTAL REVENUE RECEIPT OF LMC AND VMC

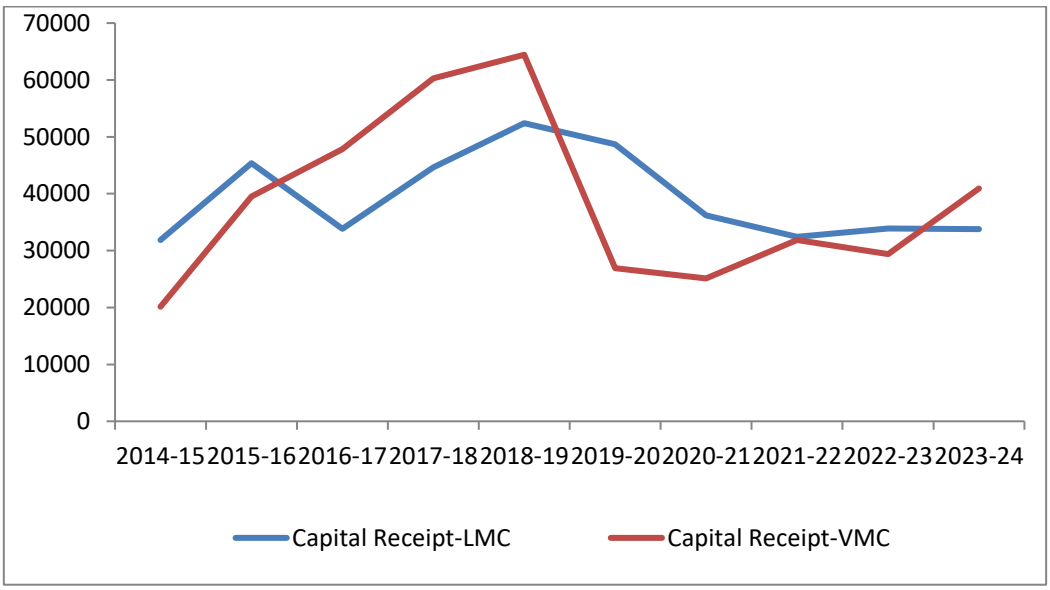
SUMMARY						
Groups	**Count**	**Sum**	**Average**	**Variance**		
LMC-RR	10	710873.1	71087.31	50594675		
VMC-RR	10	98066.90	9806.69	10333811		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	18776570465	1	1.88E+10	616.3478	2.24E-15*	4.413873
Within Groups	548356375.1	18	30464243			
Total	19324926840	19				

(* & ** are 1% and 5% significant level respectively)
Source: Author's own calculations, data taken from budget document of LMC and VMC

It is evident form the table 1 and figure 1 that LMC shows an upward-then-downward trend, while VMC shows a largely stagnant trend with very little change over the years.
To examine whether the difference in total revenue receipt is statistically significant, a one-way ANOVA test was applied with the null hypothesis that the mean revenues of the municipal corporations are equal.
Therefore, H0: $\mu1 = \mu2 = \mu3 = \mu4$ and
H1: $\mu1 \neq \mu2 \neq \mu3 \neq \mu4$
The results show a large gap in average revenue receipts, with Lucknow recording a much higher mean (₹71,087 lakh) compared to Varanasi (₹9,807 lakh). The calculated F-value (616.35) exceeds the critical value (4.41), leading to the rejection of the null hypothesis at the 1 per cent level. This confirms a significant difference in revenue performance, with LMC consistently outperforming VMC during the study period.

Total Capital Receipt of LMC and VMC
Capital receipts of municipal corporations generally include funds raised for long-term development, such as loans, capital grants, and proceeds from the sale of assets. These receipts are not regular in nature and depend on specific projects or investment needs. The below figure and table indicate the total capital income of selected MCs.

Figure 2: Trend of Capital Receipts (CR) of LMC and VMC (₹ in lakhs)



Source: Author's own construction

Figure 2 shows how capital receipts changed over time for LMC and VMC. LMC's receipts gradually increased up to 2018–19 and then started to fall, after which they remained almost steady. VMC's receipts rose very quickly in the early years and reached their highest point in 2018–19, but then dropped sharply the following year and continued to move up and down without a fixed pattern. Overall, LMC shows a smoother trend, while VMC has more sudden changes.

TABLE 2: ANOVA TEST OF TOTAL CAPITAL RECEIPT OF LMC AND VMC

SUMMARY						
Groups	**Count**	**Sum**	**Average**	**Variance**		
LMC-CR	10	393124.3	39312.43	58517562		
VMC-CR	10	386506.7	38650.67	2.24E+08		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	2189597.079	1	2189597	0.015491	0.902329	4.413873
Within Groups	2544268090	18	1.41E+08			
Total	2546457687	19				

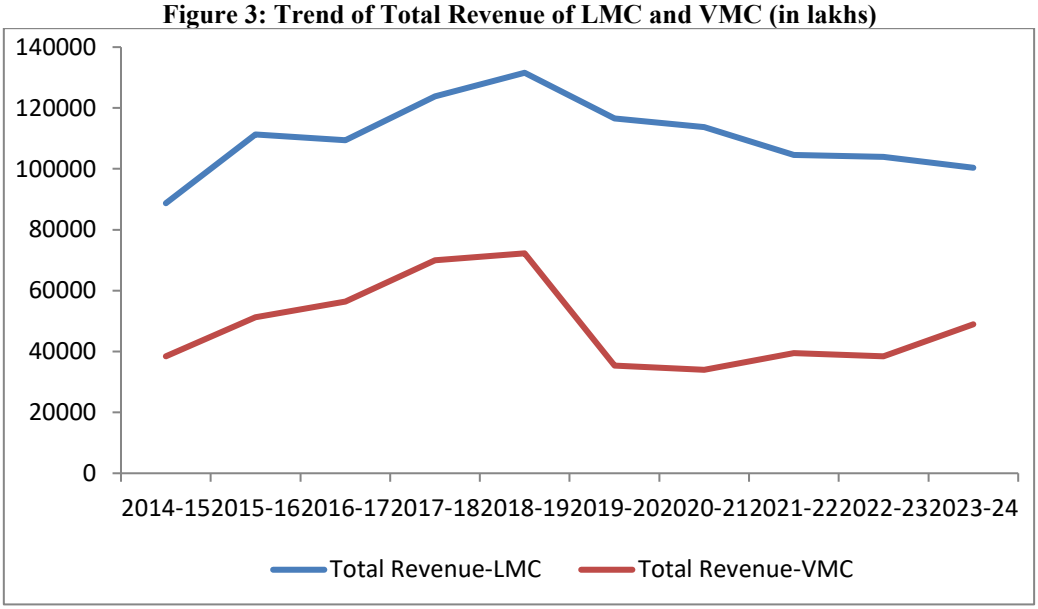
(* & ** are 1% and 5% significant level respectively)
Source: Author's own construction

Figure 2 and Table 2 indicate an unstable trend in capital receipts for both municipal corporations. A one-way ANOVA test shows no significant difference in mean capital receipts between LMC and VMC. The mean values are nearly identical, and the low F-value (0.015) with a high p-value (0.902) confirms that the observed variation is not statistically significant. This suggests similar capital receipt levels for both corporations during the study period.

Total Revenue of LMC and VMC

Total revenue reflects a municipal corporation's capacity to raise funds for civic services. In cities like Lucknow and Varanasi, it depends on economic strength, administrative efficiency, and state support, with stable revenue indicating better financial capacity.

Figure 3: Trend of Total Revenue of LMC and VMC (in lakhs)



Source: Author's own construction

Figure 3 indicates that Lucknow Municipal Corporation's revenue grows steadily from 2014-15, peaks in 2018-19, and then gradually declines while remaining above earlier levels. Varanasi Municipal Corporation follows a similar initial rise but experiences a sharp drop after 2018-19, with only limited recovery in subsequent years. Overall, both corporations show early growth followed by decline, with LMC consistently maintaining a higher revenue base than VMC.

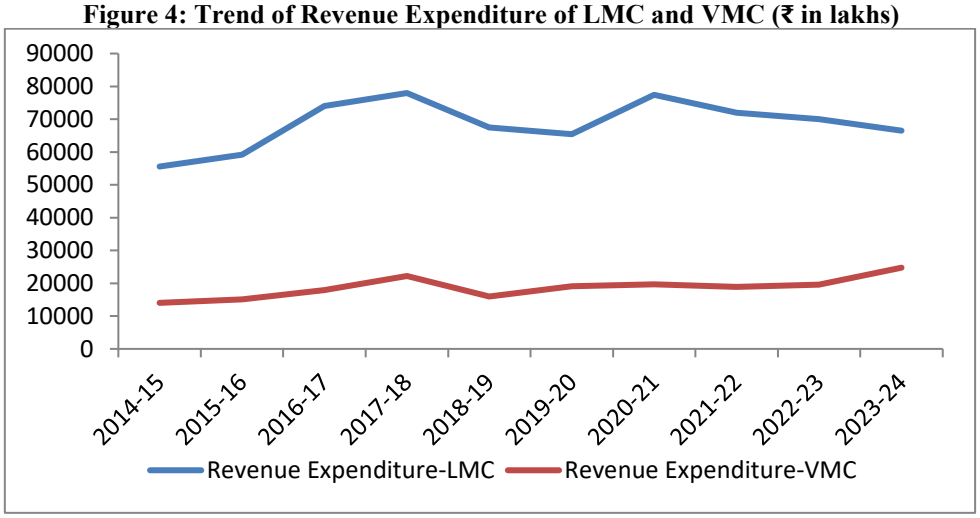
TABLE 3: ANOVA TEST OF TOTAL REVENUE OF LMC AND VMC

SUMMARY						
Groups	**Count**	**Sum**	**Average**	**Variance**		
LMC-TR	10	1103997	110399.73	147367968.1		
VMC-TR	10	484573.6	48457.361	195550757		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	19184289103	1	19184289103	111.8882563	3.73731E-09	4.413873
Within Groups	3086268526	18	171459362.6			
Total	22270557629	19				

(* & ** are 1% and 5% significant level respectively)
Source: Author's own construction

Table 4 depicts a significant difference in the total revenue of LMC and VMC. The mean revenue of LMC is much higher than that of VMC, and the F-value (111.88) is far above the critical value of 4.41. The p-value is less than 0.05 confirms that this difference is not due to normal variation but represents a real gap in the revenue levels of the two municipal bodies. Overall, the test indicates that LMC consistently generates substantially higher total revenue than VMC during the study period.

Figure 4: Trend of Revenue Expenditure of LMC and VMC (₹ in lakhs)



Source: Author's own construction

Figure 4 compares the revenue expenditure of Lucknow Municipal Corporation (LMC) and the Varanasi Municipal Corporation (VMC) from 2014-15 to 2023-24. LMC consistently has higher expenditure due to its larger population and service obligations, showing significant fluctuations after peaking in 2017-18. In contrast, VMC's expenditure shows a smoother, gradual increase, with a slight dip around 2018-19 but generally trending upward, indicating steady expansion of services. Overall, LMC exhibits a dynamic and fluctuating pattern, while VMC demonstrates more stable growth.

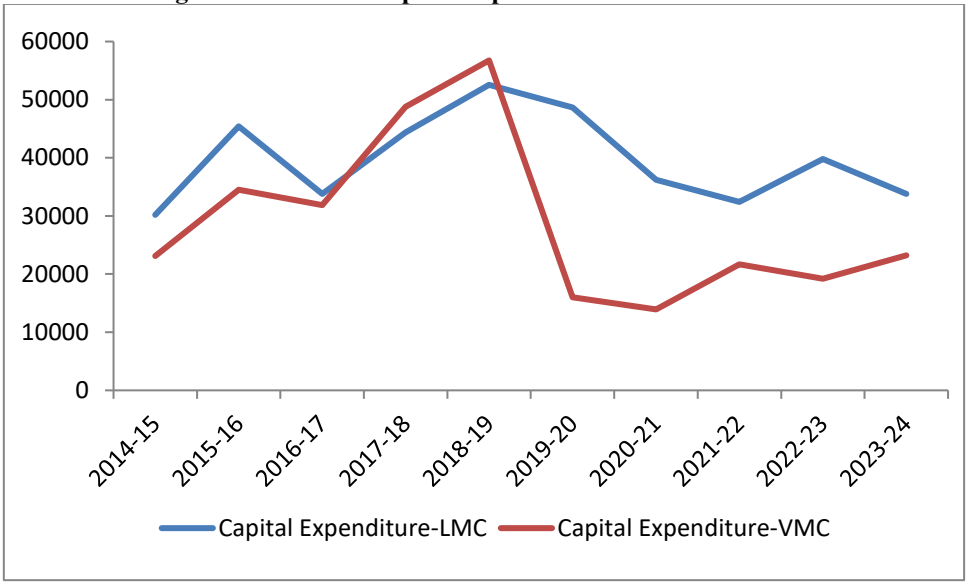
TABLE 4: ANOVA TEST OF TOTAL REVENUE OF LMC AND VMC

SUMMARY						
Groups	Count	Sum	Average	Variance		
LMC-RE	10	685429.1	68542.91	53645991		
VMC-RE	10	187043.9	18704.39	10362879		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.24E+10	1	1.24E+10	388.0522	1.25E-13	4.413873
Within Groups	5.76E+08	18	32004435			
Total	1.3E+10	19				

(* & ** are 1% and 5% significant level respectively
Source: Author's own calculation

Table 4 shows a statistically significant difference in mean revenue expenditure between LMC and VMC over the study period. The very high F-value (388.05), well above the critical value (4.41), along with a p-value below 0.05, confirms that the difference is not due to chance. LMC records a much higher average expenditure, reflecting its larger scale of operations and service obligations, while VMC operates with a comparatively lower spending base.

Figure 5: Trend of Capital Expenditure of LMC and VMC



Source: Author's own construction

Figure 5 shows that both LMC and VMC increased their capital spending up to 2018-19, reflecting active investment in major development projects. After this point, LMC's expenditure declines gradually but stays at a moderate and stable level in the later years. VMC, however, experiences a steep drop right after its peak, and although it rises slightly afterward, it remains much lower than earlier levels. Overall, LMC maintains a steadier investment pattern, whereas VMC shows a sharp contraction followed by only a modest recovery.

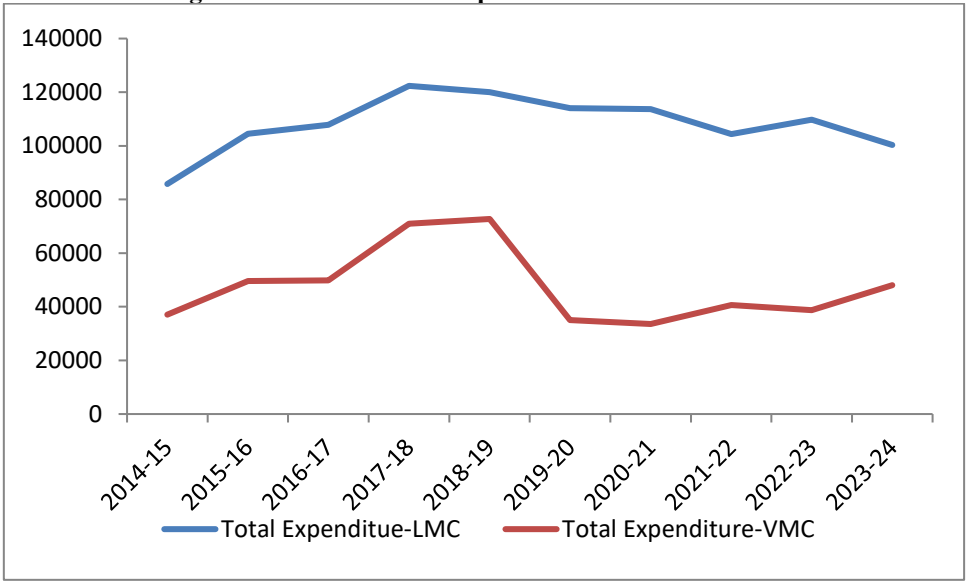
TABLE 5: ANOVA TEST OF CAPITAL EXPENDITURE OF LMC AND VMC

SUMMARY						
Groups	**Count**	**Sum**	**Average**	Variance		
LMC-CE	10	397280.3	39728.03	58347669		
VMC-CE	10	289099	28909.9	2.01E+08		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	5.85E+08	1	5.85E+08	4.506008	0.047904	4.413873
Within Groups	2.34E+09	18	1.3E+08			
Total	2.92E+09	19				

(* & ** are 1% and 5% significant level respectively)
Source: Author's own calculation, data taken from budget document of LMC and VMC

Table 5 indicates a statistically significant difference in mean capital expenditure between LMC and VMC during 2014-15 to 2024-25. The F-value (4.51) exceeds the critical value (4.41), and the p-value is less than 0.05, confirming a meaningful difference. LMC shows higher and more consistent capital spending, while VMC's expenditure remains lower and uneven, reflecting differing approaches to long-term investment.

Figure 6: Trends of total expenditure of LMC and VMC



Source: Author's own construction

TABLE 6: ANOVA TEST OF TOTAL EXPENDITURE OF LMC AND VMC

SUMMARY						
Groups	Count	Sum	Average	Variance		
LMC-TE	10	1082709	108270.9	111283750.7		
VMC-TE	10	476142.8	47614.28	197333829.4		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	18396152145	1	18396152145	119.2165	2.27E-09	4.413873
Within Groups	2777558220	18	154308790			
Total	21173710365	19				

(* & ** are 1% and 5% significant level respectively)
Source: Author's own calculation

The ANOVA test compares the mean total expenditure of LMC and VMC over the ten-year period. The F-value (119.22) is far above the critical value (4.41), and the p-value is less than 0.05. This shows that the difference in their average total expenditure is statistically significant. In practical terms, LMC spends much more overall than VMC, and this gap is too large to be explained by normal year-to-year variation. The higher mean of LMC indicates a larger financial outlay toward municipal services and development activities, while VMC operates at a comparatively lower scale of total spending.

V. SUGGESTIONS AND CONCLUSION

The comparative study of the finances of Lucknow Municipal Corporation (LMC) and Varanasi Municipal Corporation (VMC) shows clear differences in their financial strength, revenue capacity, and spending patterns. Over the ten-year period 2014-2024, LMC consistently records higher revenue receipts, total revenue, and total expenditure than VMC. This reflects its larger economic base, wider administrative responsibilities, and stronger ability to raise funds. While VMC's financial position remains weaker, with slower growth in revenue and more unstable trends, especially in capital receipts and capital spending.

The ANOVA results further confirm that major financial indicators such as revenue receipts, total revenue, revenue expenditure, capital expenditure, and total expenditure differ significantly between the two corporations. The only area where both cities show similarity is in their capital receipts, where no meaningful statistical difference is observed. This suggests that both municipal bodies depend on project-specific capital funds rather than having strong internal capacity to raise long-term financial resources.

Overall, the analysis indicates that LMC is in a relatively stronger fiscal position and manages to mobilise and utilise funds at a higher scale. On the other hand, VMC faces limitations in generating revenue and maintaining steady expenditure levels, which may affect the quality and expansion of urban services. The study highlights the need for both corporations especially VMC to improve financial planning, diversify revenue sources, and strengthen fiscal autonomy to ensure sustainable urban development.

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