

Separating the facts from the fury: was all the fuss about Tony Marryatt's pay increase justified?

On 18 December 2011, the Christchurch City Council (CCC) announced that its CEO, Tony Marryatt, would receive a 12.3% pay rise (worth \$59037), backdated to 1 July 2011.¹ Perhaps the proximity to Christmas encouraged the CCC to believe that such a move would slip through largely unnoticed. But Christchurch residents, having had to endure 15 months of earthquakes and the even more damaging after-effects inflicted by government behemoths EQC and CERA, proved in no mood to be forgiving. Every single letter to the editor of local newspaper *The Press* in the 20 and 21 December editions was critical of the move, most vehemently so. Two weeks later, it was still easily the dominant topic of correspondence, both in print and online. *The Press* itself was quick out of the blocks, offering up a 20 December editorial view that the pay rise was “excessive”, and giving prominent space on two separate pages to the critical views of a local churchman.² Shortly thereafter, an activist group called *No Payrise For Tony Marryatt* announced that a protest march would be held on 1 February 2012, to which about 1500 people ultimately turned up.

But was all this outrage really justified? After all, Marryatt had received no pay rise at all in the previous year, so there was potentially an element of catch-up in the announced increase. Virtually none of the newspaper correspondents provided any figures to back up their opinions that it was “indecent”, “inappropriate”, “evil”, “selfish”, “disgusting”, “exorbitant”, or “obscene”, to list just a few of the adjectives that were trotted out. Those who did tended to rely on very limited, and sometimes irrelevant, data. Political critics were, if anything, even more incoherent. Councillor Sally Buck, for example, provided the helpful explanation that she had voted against Marryatt's pay increase “because it is a huge amount, almost obscene, much more than the average wage”.³ Others claimed that it was unwarranted because of the hardships being faced by many post-quake citizens of Christchurch, although the link between the two was never explained.

An early revelation was that the Council had relied on information provided by consulting firm StrategicPay. Although initially described as confidential, this report was eventually released on 30 January 2012. This revealed that StrategicPay had followed a two-step procedure. First, Marryatt was given a points score, based on his qualifications, experience, and various measures of the authority and responsibilities associated with his position. Second, median and upper and lower quartile remuneration were provided for

¹ The exact magnitude of the pay source is a matter of some confusion. On 18 December, the CCC announced that Marryatt's remuneration would rise from \$474000 to \$538529, an increase of \$64529 (13.6%). However, when this was reported in *The Press* the next day, the first figure was mis-stated as \$470400, incorrectly yielding the popularly-quoted increase of \$68129 (14.5%). Finally, the 2011 Annual Report lists Marryatt's pay for the year ending 30 June 2011 as being \$479492, which I assume to be the correct figure.

² Quite why *The Press* would consider a man of the cloth to have expertise in the area of executive compensation remains, at the time of writing, unexplained.

³ *The Star*, 21 December 2011. Councillor Buck apparently saw nothing wrong with her own 2010-11 remuneration of \$107626, despite it too being much more than the average wage.

similar positions in both the NZ public and general (including private) sectors. Quite how the jump was made from the first step to the second is not explained, but unless the sample size is very small (i.e., the statistics were obtained from a sample of positions having *exactly* the same number of points as Marryatt's) the potential for mixing apples and oranges is obvious.

Conflating private and public sector remuneration is also problematical. Public sector senior management (in government departments, SOEs and universities, as well as local authorities) face few of the risks and responsibilities of their private sector counterparts. They are not subject to the discipline of financial markets, they can't go bankrupt, they don't have to worry about not being able to pay their employees, they don't create wealth or knowledge, they don't operate in globalised markets, and few of them participate in an international labour market. Basically they're bureaucrats, and are necessarily rewarded differently to private sector executives and entrepreneurs.

The official CCC announcement of the decision claimed that "(t)his increase aligns Mr Marryatt's remuneration to the market rate for comparable chief executive roles." The most obvious examples of comparable roles are other NZ local authority CEOs. A summary of the 2006-2010 pay distribution for the 73 holders of such positions appears in Table 1.⁴ As can be seen, considerable variation exists across local authority areas, but the mean and median figures do not seem excessive for this kind of role.

Table 1
Summary Statistics for NZ Local Authority CEO Remuneration

Year	Mean	Median	Maximum	Minimum	Christchurch
2006	\$204,557	\$188,423	\$385,259	\$111,140	\$350,965
2007	\$220,079	\$209,520	\$403,357	\$105,108	\$370,000*
2008	\$231,947	\$216,469	\$447,600	\$137,217	\$373,542*
2009	\$243,494	\$230,043	\$453,000	\$145,217	\$452,945*
2010**	\$242,650	\$236,000	\$479,492	\$135,907	\$479,492*

* - Tony Marryatt;

** - Auckland not included because of the switch to the single 'super-city'.

The question of interest is whether the \$535,529 package offered to Tony Marryatt for 2011-12 is out of line with those appearing in Table 1. In other words, is that package consistent with the outcomes that prevail elsewhere in the local authority sector, given the particular scale and responsibilities of the Christchurch role?

Answering this question proceeds in two steps. First, the remuneration data above is combined with additional data on what could roughly be described as each role's fundamental features – population base, land area, scope of the job, economic health of the region, regional cost of living, experience of the CEO – and then the relationship between the two is estimated. Second, this relationship is used to come up with a value

⁴ Scott Rademaker collected most of this data.

for the ‘normal’ remuneration for the Christchurch CEO position, given its fundamental features as of 30 June 2011.⁵

Loosely speaking, what this exercise does is estimate the remuneration Marryatt would expect to receive in 2012 if he were paid the ‘normal’ sector rate for each fundamental feature. As a result, any positive/negative difference between his actual pay and the estimated ‘normal’ pay indicates that he is being compensated more/less generously than the typical NZ local authority CEO, after taking into account the fundamental features of his position.

Table 2 shows that estimated ‘normal’ remuneration for the Christchurch CEO role in 2012 is \$458243, with an upper bound (allowing for the margin of error) of \$477016. The difference between these numbers and the \$535,529 actually awarded is sufficiently great that the latter figure would almost certainly make Marryatt the highest-paid local authority CEO in NZ relative to the demands of his position. Nor is this just a 2012 phenomenon – between 2007 and 2012 Marryatt received, on average, \$38022 more a year than the ‘normal’ pay for his position.

Such numbers could indicate that the CCC has systematically overpaid Marryatt relative to his peers, with this coming to a head in December 2011, or it could just be that the Christchurch CEO position has ‘above-normal’ responsibilities not captured in the data. Mayor Parker’s revelation (*The Press*, 31 January 2012) that Marryatt’s remuneration was benchmarked in part to the private sector – on the grounds that “it’s a very large job” - suggests the former explanation is more likely. Marryatt himself (*The Press*, 5 January 2012) has argued that his job has “grown immensely” since the February 2011 earthquake. But this seems spurious. Like an insurance company, a CEO receives a regular premium during good times as compensation for the extra effort he needs to put in when the going gets tough. To then claim that higher pay is justified by the going having got tougher seems like an attempt to retain one’s cake after having already eaten it.

Table 2
2012 Christchurch CEO Remuneration

	Mid-point	Upper Limit	Lower Limit
2012 ‘Normal’ Pay	\$458,243	\$477,016	\$439,469
	Awarded	After ‘refusal’	2007-2010 annual excess pay
2012 Actual Pay	\$535,529	\$479,492	\$38022

On 25 January 2012, Marryatt indicated that he might refuse the pay rise. Were he to do so, his remaining remuneration of \$479,492 would be very close to the upper limit value

⁵ For the mathematically-inclined, these two steps are simply equations. The first is a regression of pay on fundamental features. The second substitutes data on 2011 Christchurch fundamental features into the estimated regression in order to back out the level of 2012 pay consistent with those features.

in Table 2, suggesting that any departure from normal local authority practice would then be small.

In summary, what can be said? First, even after taking into the account the significant scale of Marryatt's position, the initial award of \$535,529 does seem to be very generous relative to standard practice in the local authority sector. In this sense at least, the public's unhappiness would seem to be justified. Second, refusing the increase would leave Marryatt's remuneration at a level that is not obviously out of kilter with other local authority CEOs. The eventual outcome may, therefore, end up being about right, albeit by accident.

How might such accidents be avoided in future? Given the difficulties in establishing the true value of any position, there is no easy solution. But downgrading the role of compensation consultants would be a good start. Such companies typically seek to provide other services to councils and thus have a strong incentive to put the CEO's position in the most favourable light when it comes to remuneration reviews. While it might be necessary to retain consultants to provide data (a task at which they excel), employment of an independent labour economist to analyse this data and make pay recommendations would eliminate conflicts of interest and provide a better set of analytical skills.

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