



To: Finance Committee

Date: June 17, 2015

From: Jerry Chong
Director, Finance

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Re: Contaminated Sites Accounting Standard Change Update

Staff Recommendation

That the staff report titled, "Contaminated Sites Accounting Standard Change Update", dated June 17, 2015 from the Director, Finance be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS:
APPROVED BY CAO 	

Staff Report

Origin

The Public Sector Accounting Board has issued a new accounting standard on Liability for Contaminated Sites (PS3260) that will require all three levels of government, as well as Crown corporations and various public entities reporting under the Public Sector Accounting Standards to comply with the financial reporting requirements of PS3260 for fiscal years beginning on or after April 1, 2014.

Subsection 167(2) of the Community Charter requires that financial statements be prepared in accordance with generally accepted accounting principles for local government. The Public Sector Accounting Board is the body that establishes accounting standards for local government.

The purpose of this report is to provide information on the new accounting standard on Liability for Contaminated Sites.

Analysis

Overview of PS3260

Under PS3260, a liability for remediation of contaminated sites is recognized when, as at the financial reporting date, all of the following criteria are met for a site or a portion of a site which is not in active use:

- (a) An environmental standard exists;

Environmental standards are generally set out in the form of a statute, regulation, by-law, order, permit, contract or agreement. They are legally enforceable and binding, and compliance is mandatory.

- (b) Contamination exceeds the environmental standard;

When determining if contamination exceeds the environmental standard all available historical and current information pertaining to the site or group of sites would need to be reviewed. Some examples of factors to consider include:

- The nature of past activities at the site or adjacent properties;
- Site location, hydrology and geology;
- Results from testing and field investigations;
- Similarities to and experience at other known contaminated sites;
- Significance of the site; and
- Cost versus benefit of conducting detailed site assessments.

- (c) The government is directly responsible or accepts responsibility;

Direct Responsibility

A government may be directly responsible for remediation due to its own past activities that have caused contamination.

Example: The government operated a works yards.

A government may also be directly responsible when activities occurred on government-owned land or land the government has since acquired, and a responsible party either cannot be identified or lacks the means for remediation.

Example: The government “inherited” responsibility for abandoned mines on Crown land through bankruptcy proceedings and court decisions.

Accepted Responsibility

A government may also voluntarily accept responsibility for the remediation of a contaminated site by its own actions or promises. While most liabilities for remediation arise from legal obligations, the settlement of which can be enforced by a court of law, some may result from constructive or equitable (moral or ethical) obligations. An essential characteristic of a liability is that there is a present obligation resulting from a past event that leaves an entity little, if any, discretion to avoid it.

Uncertain Responsibility

A situation may occur where an environmental standard exists, contamination exceeds this standard, the government is not directly responsible and it does not accept responsibility, however, there is uncertainty as to whether the government may be responsible. In this situation, the government may have a contingent liability. A future confirming event may be required to determine whether the government is responsible. If it is likely that a future event will confirm the government’s responsibility, a liability will be recognized if it can be reasonably estimated. It is important to remember that uncertainty about whether or not contamination exists (for example, due to a site assessment not yet being completed) is not the same type of uncertainty that characterizes a contingent liability, because in this case the future event that will resolve the uncertainty is within the government’s control. Instead this would be a measurement issue.

- (d) It is expected that future economic benefits will be given up (i.e. the government expects to expend their own resources to clean up the contaminated site);

Whether or not a government chooses to perform remediation, the existence of contamination that exceeds an environmental standard may create a liability since a government may have a present obligation to remediate the contamination now or at some point in the future. The timing of the settlement would be reflected in the measurement of the liability, it would not relieve the government of its present obligation or recognition of the associated liability.

(e) A reasonable estimate of the amount can be made.

If the above four criteria have been met for a contaminated site it would be very unusual that the government could not determine a reasonable estimate of the amount required to remediate the contaminated site.

The City must apply this standard in the financial statements for the year-ended December 31, 2015 and restate December 31, 2014 figures.

Remediation Liability, Expense Measurement and Disclosure

Once contaminated sites have been identified and assessed to have violated environment standards, governments are required under PS3260 to accrue for the estimated remediation expenses required to bring the site up to the current minimum environment standard. The estimated costs reported at each financial statement date should include costs directly attributable to the remediation work such as payroll, equipment, fixed assets, materials, legal, other professional costs as well as post remediation costs such as treatment of effluent from the contaminated site etc.

In addition to the recording of the liability and expense, the government is also required to include the disclosure in its financial statements to inform readers on the nature and source of the liability, the basis and the calculation of the estimated liability, and other disclosure requirements as specified in PS3260.

Action Plan for the Implementation of PS3260

Implementation of the standard is inherently complex and the potential financial implications could be significant. The City's plan to assess, design and apply PS3260 is as follows:

1. Establishment of a Steering Committee with specific representation from areas including: Finance, Environmental Services, Real Estate Services, Risk Management, Procurement, Legal, and various operational stakeholders from Parks, and Engineering and Public Works. Complete

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| 2. Development of formal internal procedures and guidelines setting out the framework to classify and account for risks which may drive the estimates and assumptions for remediation. Such internal procedures will also ensure that the implementation and ongoing monitoring of PS3260 are consistently applied from site to site. | Ongoing |
| 3. Preparation of a full inventory of the City's sites including titled properties, land under road, and leases. | Ongoing |
| 4. Determination of productive and non-productive sites based on analysis of current use. | Future |
| 5. Analysis of historic use for those properties that are considered non-productive use. This will include interviews with staff, review of historical records and other investigative techniques. | Future |
| 6. Engagement of external environmental specialists and independent professional engineers to conduct assessments and prepare cost estimates of potentially contaminated sites. | Future |
| 7. Engagement of external auditors in reviewing and consulting on the City's implementation plan and self-assessment findings prior to the adoption of PS3260. | Ongoing |
| 8. Preparation of regular updates to Senior Management Team. | Ongoing |

Financial Impact

None at this time.

Conclusion

The required adoption of the Public Sector Accounting Board's PS3260 (Liability for Contaminated Sites) is approaching. The City has significant work to complete its assessment on how this standard may impact its financial reporting. Staff will update Council on any significant issues that may arise during the implementation of PS3260.



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