STAFF REPORT

TO: Committee of the Whole
MEETING: June 9, 2020
FROM: Jeannie Bradburne
Director of Finance
FILE: Not applicable

SUBJECT: PS 3280 – Asset Retirement Obligation

RECOMMENDATION

That the Board receive the PS 3280 – Asset Retirement Obligation report for information.

SUMMARY

This report provides information on section PS 3280 of the Public Sector Accounting Board’s Public Sector Accounting Standard, which is effective for the fiscal years beginning on or after April 1, 2021.

BACKGROUND

The standard will require recognition of future costs related to retirement of tangible capital assets. Investigation and evaluation work will involve all departments and will begin in 2020 ending with valuation and recognition in the financial statements for the year ended December 31, 2022. Implementation of this new standard is required by the Public Sector Accounting Board and is not optional. Early adoption is not recommended as there is no benefit to early adoption of the new accounting standard.

This is a new requirement, and we are not aware of any other local government that has implemented it so we do not have an example of how to go about this project. All local governments will need to incorporate this standard into their financial statements, so it is very important for the Regional District of Nanaimo (RDN) to start early to ensure we can engage qualified professionals, as they will all be in demand to do this work at the same time.

Asset retirement obligations arise when there is a legal obligation to retire tangible capital assets. Retirement is defined as removal of a capital asset from service and includes sale transactions, asset abandonment and/or asset disposal. Costs may include, but are not limited to decommissioning, dismantling, and remediation of a tangible capital asset.

Existing laws, regulations, and contractual agreements may also require public sector entities to take specific actions to retire certain tangible capital assets at the end of their useful lives.

The exercise of identifying, assessing, and estimating asset retirement obligations will require a considerable effort across the organization and will require use of professional experts. The project will be a significant undertaking for the finance department and will result in ongoing additional work to maintain compliance with the new standard in the future. Additional resources
will be required to implement and maintain the new standard. The RDN’s auditors, MNP, have commented on the significant undertaking during their 2019 Financial Statement presentation to the Board, as well as in an email (Attachment 2).

The financial statements of the Regional District of Nanaimo are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS). As such, adoption of PS 3280 Asset Retirement Obligation is required beginning in the year ended December 31, 2022.

**ALTERNATIVES**

1. That the Board receive the PS 3280 – Asset Retirement Obligation report for information.

2. Other direction, as provided.

**FINANCIAL IMPLICATIONS**

The financial statements reflect balances and disclosures in alignment with public sector accounting standards addressing general liabilities, landfill liabilities, contractual obligations, contaminated sites and contingent liabilities.

The new standard extends these requirements to include liabilities related to the retirement of existing assets. The standard outlines that the cost of an asset should also include the cost that will be incurred to retire that asset. An asset retirement obligation exists when there is a legal obligation to incur retirement costs in relation to an asset.

Some examples of when a legal obligation may exist:

- Lease requires removal of leasehold improvements at the end of the lease
- Land covenants require land to be returned to its natural state when assets are no longer in use
- Assets that need to be removed from site at the end of their useful life
- Assets that do not comply with standards and regulations that if sold, disposed or no longer in use, would require remediation, such as asbestos in buildings

Assets likely to have an associated retirement obligation could include buildings, leased properties, docks, landfills, pump stations, reservoirs, treatment plans, park infrastructure, and radio towers.

With the implementation of PS 3280 the previous PS 3270 Solid Waste Landfill Closure and Post-Closure Liability is replaced. Under PS 3280, the liability for landfill closure and post-closure costs will be revised.

Once an asset retirement obligation liability is estimated, a liability and asset of equal value are recorded on the Statement of Financial Position. This effectively increases the carrying cost of the existing asset at the same time as recording the liability. The only exception is in cases where the asset is no longer in use and the liability will be expensed immediately rather than creating an asset.
Estimates will include all costs directly related to the asset retirement activities but will be limited to those legally enforceable. An estimate is made today for some point in the future at which time the liability will be extinguished. The future value is then discounted, through a discount rate, back to today’s value. Consultants with expert knowledge of this form of valuation will assist with the implementation of the new standard.

Each year there will be an accrued expense in the Statement of Operations to increase the liability with the passage of time. This recognizes the expense while the asset is in use and results in the liability growing to equal the estimated costs at the retirement date. Similar to amortization, this is a non-cash expense item and does not directly drive budgeted revenues.

Funding of $100,000 for assistance from a consultant has been included in the 2020 Financial Plan for the initial stages of the projects, and a Request for Proposal will be issued as soon as possible in order to maintain required timelines for implementation. Additional funding will be required in 2021 for the assessment of the liabilities. The cost to complete the assessments will not be known until completion of the initial stages of the project. Additional resources will be required for the implementation and ongoing maintenance of the new standard. Supporting information from our auditors regarding the resourcing requirements is included in Attachment 2 – MNP ARO Accounting Standard May 28, 2020 Email.

STRATEGIC PLAN IMPLICATIONS

Compliance with PSAS supports the Value of Fiscal Responsibility.

Jeannie Bradburne
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March 19, 2020

Reviewed by:
- D. Wells, General Manager, Corporate Services
- P. Carlyle, Chief Administrative Officer

Attachments:
1. PS 3280 – Asset Retirement Obligation
2. MNP ARO Accounting Standard May 28, 2020 Email