Council Report

Report Number:	**CORP2024-013**
Meeting Date:	July 23, 2024
Title:	**Asset Retirement Obligation**
Description:	Public Sector Accounting Board Standard on Asset Retirement Obligations and Proposed City Policy
Author and Title:	Sandra Shorkey, Supervisor-Treasury

Recommendation(s):

That Report CORP2024-013, **Asset Retirement Obligation**, be received; and

That the policy entitled Asset Retirement Obligation Policy, appended to Report CORP2024-013 as Appendix A, be adopted, numbered and inserted in the Corporate Policy Manual.

Department Head: ____

Financial/Legal/HR/Other: __________________________________

Chief Administrative Officer: _________________________________

Background:

The Public Sector Accounting Board (PSAB) has a new accounting standard, PS 3280: Asset Retirement Obligation that will apply to the City's financial reporting starting with the 2023 financial statements.

The new Public Sector Accounting Board standard PS 3280 on Asset Retirement Obligations relates to quantifying and disclosing, on the financial statements, legal obligations associated with the retirement of tangible capital assets.

According to PS 3280, an asset retirement obligation should be recognized when all of the following criteria are satisfied:

- There is a legal obligation to incur retirement costs associated with the tangible capital asset
- The past transactions or event given rise to the liability has occurred
- It is expected that future economic benefits will be given up
- Reasonable estimate of the amount can be made

At initial measurement, only costs directly associated with the asset retirement activities should be considered. At each subsequent period, the asset retirement obligations must be reassessed to consider new information and any assumptions used.

This report provides information on the new accounting standard, the City's project plan approach and proposed policy to meet the Asset Retirement Obligation (ARO) requirements, and how the new standard impacts the City's financial statements.

Rationale:

As noted in the background section, public sector organizations must start to disclose future asset retirement obligations. These include the cost of future asbestos removal, rehabilitation of aggregate properties, and removal of underground oil/gas tanks when the assets are projected to be retired. The process of identifying, assessing, and estimating an asset retirement obligation required collaboration from various City departments, as well as relying on the expertise of external consultants where internal expertise and capacity was limited.

As a result of the scoping phase of the project, the following assets have been identified for consideration and measurement for ARO:

- Facilities (potential to contain various contaminates such as asbestos, lead, silica, etc.)
- Underground storage tanks (fuel/oil/firewater holding tanks)
- Land leases and leasehold improvements

Other Alternatives Considered:

N/A

Alignment to Strategic Priorities

Good Government. To maintain the City's commitment of responsible financial management and compliance. To understand the affordability and sustainability to a healthy and balanced community.

Financial/Operation Impacts:

The studies related to the compliance of the Asset Retirement Obligation were financed by a 2023 Special Project budget of $150,000. The costs of this implementation project included the consultant services of Deloitte LLP and consultants providing cost estimates for remediation of removal of materials such as those containing asbestos for capital assets with possible AROs. The Deloitte Consultant Memo included in Appendix B identifies the review in scoping of assets and supports the cost estimates.

Future Financial Considerations

The existing asset retirement obligations will be assessed for any changes in expected cost, term of retirement, or any other changes that may impact the estimated obligation on an annual basis. In addition, any new obligations identified will also be assessed. Any capital projects to assets that have an identified ARO will be evaluated to ensure that the ARO is evaluated based on the work performed for any changes that may affect the remediation cost estimates.

The ARO depreciation will be recorded annually. Classification of depreciation as noncash adjustments and will have no effect on the operating budget.

Servicing Implications:

This project required cross departmental involvement to identify and scope the assets that have an asset retirement obligation.

Departments were consulted to determine if the City had the expertise and capacity to provide measurement estimates associated with the asset retirement obligations identified. It was concluded that the use of consultants in scoping the assets;

documenting key scoping assumptions, the methodology of measurement and recognition of identified AROs and procedures and financial entries to record the AROs for implementation was required. As well, consultants were required to provide remediation for removal costs.

Consultations:

Deloitte LLP

Treasurer

Director of Engineering and Corporate Assets

Manager of Corporate Assets

Manager, Building and Property

Supervisor, Cost Accounting

Attachments:

Appendix A – Asset Retirement Obligation Policy

Asset Retirement Obligation Council Po

Appendix B – Deloitte Consultant Memo

Deloitte Memo and Strategy Paper.docx

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