

Report to Council

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| Report Title: | Asset Retirement Obligations Policy | | |
| Prepared By: | Trish Serratore, Chief Financial Officer and Jessica Pinkse, Tax Collector/Deputy Treasurer | | |
| Department: | Finance | | |
| Date: | April 25, 2023 | | |
| Report Number: | FIN2023-11 | File Number: | C11FIN, A09, F06 |
| Attachments: | Asset Retirement Obligation Policy | | |

Recommendation:

That the Council of the Municipality of Brockton hereby receives Report Number FIN2023-11 – Asset Retirement Obligations Policy, prepared by Trish Serratore, Chief Financial Officer and Jessica Pinkse, Tax Collector/Deputy Treasurer and in doing so approves a By-Law coming forward to adopt the Asset Retirement Obligations Policy.

Report:

Background:

The Public Sector Accounting Board, an independent body created to develop accounting standards for municipalities, has further strengthened municipal asset management practices with the development of a new standard. This new standard, PS 3280 Asset Retirement Obligations, requires municipalities across Canada to recognize costs associated with the retirement of assets.

An asset retirement obligation is “a legal obligation associated with the retirement of a tangible capital asset” and arises when there is a legal obligation to retire an asset from service. Asset retirement is defined as removing a capital asset from service and includes sale transactions, asset abandonment, and asset disposal. These costs may include, but are not limited to decommissioning, dismantling, and remediation of tangible capital assets and meeting any legislative mandates around environmental cleanup and/or restoring assets to their original condition.

Municipalities need to approve an Asset Retirement Obligations Policy and incorporate the associated financial obligations into their financial statements beginning in the 2023 fiscal year. The asset retirement obligations should be capitalized and amortized, allocating the future costs of retirement in a rational and systematic manner over the remaining life of the asset.

The recognition of the liability for future costs associated with the retirement of certain assets will ensure that funds will be available for the full cost of the asset disposal at the end of its useful life.

While this standard is new, the practice is not entirely new as municipalities do currently recognize the environmental obligations associated with liabilities for contaminated sites and solid waste facilities. The intent of this new standard is to expand the requirements to other assets which have costs associated with their disposal. Examples of such assets includes: buildings with asbestos, fuel storage tank removal, septic beds, and end of lease provisions.

It is important that asset retirement obligations are reported correctly in the financial statements otherwise municipalities will risk having an adverse or qualified opinion on their financial statements.

Analysis:

With the recent changes to reporting standards by the Public Sector Accounting Board (PSAB) this requires municipalities to identify, measure, and report certain costs associated with asset retirement. Municipalities must prepare an Asset Retirement Obligation Policy that establishes guidelines to ensure compliance with the new standard PSAB PS 3280 – Asset Retirement Obligations. Staff have developed a Asset Retirement Obligation Policy which has been attached to this report.

The current financial statements reflect balances and disclosures aligned with Public Sector Accounting Standards addressing general liabilities, landfill liabilities, contractual liabilities, contaminated site liabilities and contingent liabilities. The new standard extends these requirements to include liabilities related to the retirement of existing assets and indicates that recognizing the cost of an asset should consist of the expenses incurred to retire that asset in the future.

These asset retirement obligations exist when there is a legal obligation to incur retirement costs concerning assets. Some examples of when a legal obligation may exist include:

- Assets that require compliance with standards and regulations that, if sold, disposed of, or no longer in use, would require remediation, such as asbestos in buildings and in-ground piping, fuel storage tank removal, wells, firewater holding tanks, and septic beds;
- Leases that require removal of leasehold improvements or other remediation at the end of the lease, such as the reforestation of land subject to a timber lease;
- Land covenants that require removal at the end of their useful life; and
- Assets that need to be returned to their natural state at the end of their useful life, such as mining activities and landfills.

The work required to adhere to the new regulations has already begun with the development of the Asset Retirement Obligations Policy. Staff have attended training webinars and reviewed industry guidance on the topic from a number of sources including the Municipal Finance Officers' Association of Ontario (MFOA). In addition, staff have formed a working group to work collaboratively to develop this policy, as well as continue with the additional work needed within the ARO and other asset management requirements. The CFO has circulated the attached policy to the municipal auditor for review and comment if there are any concerns, there was no concerns expressed.

Staff will work with Department Heads throughout the year to review all assets owned and controlled by the Municipality against the Asset Retirement Obligation Policy requirements to identify future liabilities.

The identified liabilities will be measured and included in the Municipality’s financial statements beginning in the 2023 fiscal year.

Each year there will be an accrued expense in the Statement of Operations to increase the liability with time. This recognizes the expenses while the asset is in use and results in the liability growing to equal the estimated costs on the date of retirement of the asset.

Strategic Action Plan Checklist:

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| What aspect of the Brockton Strategic Action Plan does the content/recommendations in this report help advance? | |
| • Recommendations help move the Municipality closer to its Vision | N/A |
| • Recommendations contribute to achieving Heritage, Culture, and Community | N/A |
| • Recommendations contribute to achieving Quality of Life | N/A |
| • Recommendations contribute to achieving Land Use Planning and the Natural Environment | N/A |
| • Recommendations contribute to achieving Economic Development | N/A |
| • Recommendations contribute to achieving Municipal Governance | N/A |

Financial Impacts/Source of Funding:

- Do the recommendations represent a sound financial investment from a sustainability perspective?
N/A

A future report will be prepared for Council to outline the assets which have retirement obligations and the estimated costs of the retirement costs.

There is no budgetary impact on the policy, however there may be unknow impact on the Municipality’s financial position as a result of recognizing asset retirement obligations. However, consideration should be given to creating an Asset Retirement Obligation Reserve to accumulate the necessary funds to cover retirement costs, including those associated with the Municipality’s landfill, when they are required.

Respectfully Submitted by:


Trish Serratore, Chief Financial Officer


Jessica Pinkse, Tax Collector/Deputy Treasurer

Reviewed By:

A handwritten signature in black ink, appearing to read "Sonya Watson", with a stylized flourish at the end.

Sonya Watson, Chief Administrative Officer