



# Accounting and Reporting for Costs and Liabilities Related to Contaminated Sites

**Federal Contaminated Sites  
National Workshop  
April 29, 2008**



# Outline

- Policy Environment
- Accounting and Reporting Framework
- Technical Information



# Policy Environment

- Accounting Principles
  - Canadian Generally Accepted Accounting Principles (GAAP) for the Public Sector
- Treasury Board of Canada
  - Policy on Management of Real Property
  - Policy on Accounting for Costs and Liabilities Related to Contaminated Sites
  - Guidance On Accounting for Environmental Liabilities



# Accounting Principles on Environmental Liabilities

The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting (PSA) Handbook:

PS 3200 – Liabilities

PS 3300 – Contingent liabilities

PS 3270 – Solid waste landfill  
closure and post-closure liability



# CICA PS 3200 - Liabilities

## Definition

“Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.”




# **CICA PS 3200 - Liabilities**

## **3 Essential Characteristics**

**Obligations are not liabilities unless they have the following 3 characteristics:**

- little or no discretion to avoid settlement of obligation;
- settlement by future transfer of assets, provision of goods or services or other forms of economic settlement; and,
- transactions or events giving rise to obligation have already occurred.



# **CICA PS 3200 - Liabilities**

## **Recognition of Liabilities**

Liabilities should be recognized in the financial statements when:

- there is an appropriate basis of measurement; and
- a reasonable estimate can be made of the amount involved.



# CICA PS 3300

## Contingent Liabilities

“Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the government’s control occurs or fail to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability”

# CICA PS 3270 – Solid waste landfill Closure and post-closure liability

A solid waste landfill site is defined as

- a defined areas of land that receives waste
- subject to environmental approval process
- landfill operator accepts responsibility for closure and post-closure care of the approved sites

“Only the expenditures relating to those activities required when the site or phase stops accepting waste are included in the closure and post-closure care liability”.

# Recognition – Solid waste landfill Closure and post-closure liability

Liability = estimated total expenditure (A), that

- represents the sum of the discounted future cash flows associated with the closure and post-closure care activities; after given consideration to current technology, the length of the post-closure care period, and the environmental regulations at the time the estimate is made.

Annual change in liability =

(A) x (cumulative capacity used / total estimated capacity) – expenditure previously recognized



# Treasury Board of Canada

## Policy on Management of Real Property

### Section 6.1.12

- Known and suspected contaminated sites are assessed and classified and risk management principles are applied to determine the most appropriate and cost-effective course of action for each site.
- Management activities (including remediation) must be undertaken to the extent required for current or intended federal use.



# Treasury Board of Canada

## Policy on Management of Real Property

Remediation is defined as

Improving a contaminated site to prevent, minimize or mitigate damage to human or the environment. Remediation involves developing and applying a planned approach that monitors, removes, destroys, contains, or otherwise reduces the exposure of contaminants to receptors of concern.



# Treasury Board of Canada

## Existing accounting policy and guidance

- “ to account for costs and liabilities related to the management and remediation of environmentally contaminated sites when contamination occurs if the government is obligated, or is likely obligated, to incur such costs:
- For reasons of public health and safety;
  - Due to contractual arrangements; or
  - To meet standards set out in an act or regulation of a government in Canada or abroad which are considered to be acceptable to the government.”



# Policy Renewal

- Policy on Accounting for Costs and Liabilities Related to Contaminated Sites

[http://publiservice.tbs-sct.gc.ca/pubs\\_pol/dcgpubs/TBM\\_142/aclbs-ccpsc\\_e.asp](http://publiservice.tbs-sct.gc.ca/pubs_pol/dcgpubs/TBM_142/aclbs-ccpsc_e.asp)

will be replaced by :

## **Directive on Contingencies**

- Consultation took place in November 2006
- Release date to be determined



# Policy Renewal

- **Guidance on Accounting for Environmental Liabilities**

[http://www.tbs-sct.gc.ca/rpm-gbi/rpmdpubs/liabilities-passifs\\_e.asp?](http://www.tbs-sct.gc.ca/rpm-gbi/rpmdpubs/liabilities-passifs_e.asp?)

will be incorporated in the new :

## **Government of Canada (GoC) Accounting Guide**

- **GoC Accounting Guide will replace the FIS Accounting Manual (release date to be determined)**



# Accounting and Reporting Framework

- Environmental Liabilities
  - cost estimates: remediation
- Operating Expenses
- Environmental Contingent Liabilities
- Public Accounts of Canada



# Accounting for Environmental Liabilities

## Estimate costs on sites

- owned by government - net of any likely recoveries from 3<sup>rd</sup> parties (polluter pay principle)
- leased or occupied by government - if government acknowledges responsibility or if required in lease agreement
- not owned, leased or occupied by government - if government caused contamination; otherwise, transfer payment for funding remediation (no liability)



# Accounting for Environmental Liabilities

- Liability estimate based on a quantitative assessment of the likely costs required to remediate or risk manage the contaminated site according to activities outlined in the plan.
- Cost must include all resources that will be charged to the project: labour, material, supplies, and special categories such as contingent plan to address potential risk to be encountered.
- Documentation of the basis for the estimate and of any assumptions made.



# Accounting for Costs As Operating Expenses

- Costs for assessment (including costs for immediate control measures) and classification of sites.
- Costs for monitoring of sites after completion of strategic remediation plan



# Disclosure for Environmental Contingent Liabilities

- When the government is obligated or likely obligated to remediate, but there exists an exposure to liability in excess of the amount recorded, disclose the excess amount as a contingent liability if remediation costs can be reasonably estimated (e.g. options identified in the planned approach, possible change in use of land)
- If unclear whether government is obligated to remediate, disclose costs as a contingent liability if remediation costs can be reasonably estimated.

# Public Accounts of Canada

Contaminated Sites	Environmental Liabilities	Contingent Liability
March 31, 2004	\$3,133 M	\$1,045 M
March 31, 2005	\$2,874 M	\$2,440 M
March 31, 2006	\$3,014 M	\$3,470 M
March 31, 2007	\$3,134 M	\$3,243 M



# Technical Information

- Extrapolation
- Valuation
- **CCME NCSCS** - Canadian Council of the Minister of the Environmental National Classification System for Contaminated Sites
- **CSMWG's 10-step Approach** - A Federal Approach to Contaminated Site by the Contaminated Sites Management Working Group
- **FCSAP** - Federal Contaminated Sites Action Plan
- **FCSI** - Federal Contaminated Sites Inventory



# Technical Information

- Extrapolation on homogeneous sites
- Valuation of liability estimate at year-end
  - inflated (increased) by CPI, or
  - discounted (decreased) by discount rate such as CRF lending rate



# Technical Information

## CCME NCSCS

- To classify contaminated sites for priority action
- 1992 version vs. 2008 version (Classes 1,2,3,N,I)

## CSMWG's 10-step Approach

- Systematic approach to address contaminated sites

## FCSAP

- A funding program

## FCSI

- Inventory of all federal contaminated sites



# **Accounting and Reporting for Costs and Liabilities Related to Contaminated Sites**

**Question?**

**Thank you!**

