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Financial Management of Contaminated Sites

Federal Contaminated Sites National Workshop

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Agenda

- Background
- Current Accounting Framework
- Strategies for Management of Liabilities for Contaminated Sites

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Background

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Background

- The Government of Canada implemented its Financial Information Strategy ("FIS"):
  - FIS requires full accrual accounting
  - Applied as at April 1, 2011

- Implementation came in various phases:
  - 2002: Policy guidance issued to government departments, progress in the identification and cataloguing to suspected contaminated sites.
    - Estimated $2.5 billion in liabilities (unrecorded in 2002 Public Accounts)

  - 2003: Recording of environmental liabilities in Public Accounts began (with comparative figures)

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Financial data – Environmental liabilities

Year	Number of sites	Accrued liability (Note 1) (Millions)	Contingent liability (Millions)	Total (Millions)
2002	2,200	$3,351 (Note 2)	$710	$4,061
2003	2,200	$3,378	$915	$4,293
2004	2,400	$3,564	$1,045	$4,609
2005	2,200	$2,874	$2,440	$5,314
2006	2,700	$3,014	$3,470	$6,484
2007	2,660	$3,134	$3,243	$6,377
2008	2,390	$3,661	$2,203	$5,864
2009	2,010	$3,230	$1,890	$5,120

Source: Public Accounts of Canada

Note 1: Numbers exclude costs of decommissioning nuclear facilities
Note 2: Versus 2002 estimate of $2.5 billion

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Current Accounting Framework

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PSAB guidance

- Current PSAB Guidance includes:
  - **Recently approved exposure draft – Liability for Contaminated Sites**
  - PS 2130 – Measurement Uncertainty
  - PS 3200 – Liabilities
  - PS 3270 – Solid Waste Landfill Closure and Post-closure Liability
  - **PS 3300 – Contingent Liabilities**

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PSAB – Liability for contaminated sites

- Standard approved in March 2010

- This standard applies to:
  - contaminated sites that are no longer in productive use (i.e., legacy sites such as abandoned mine sites on Crown lands);
  - contamination resulting from the operation of an asset that is no longer used but the liability has not been previously recognized; and
  - unexpected environmental events such as a toxic spill or natural disaster.

- Applicable for fiscal years beginning on or after April 1, 2012. Earlier adoption is encouraged.

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PSAB – Liability for contaminated sites (cont'd)

- Four criteria must be met:
  - an environmental standard exists;
  - contamination exceeds an environmental standard;
  - the government is directly responsible or accepts responsibility for the site; and
  - a reasonable estimate of the amount can be made.

- Should record all costs directly attributable to remediation activities including post-remediation operation, maintenance and monitoring.

- Should disclose:
  - Nature
  - Event creating liability
  - Basis of estimate (aka accounting policy)
  - Total undiscounted expenditures and timing of future payments
  - Reasons for non-disclosure of liability
  - Estimated recoveries

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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.

- Probability must be considered in the following range:
  - Likely (high)
  - Unlikely (low)
  - Not determinable (cannot be determined)

- Liabilities are recorded when:
  - Classified as likely
  - Amount can be reasonably determined

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Impact on financial reporting requirements

- Governments (and departments) must disclose significant environmental liabilities and contingent liabilities in their departmental financial statements.
  - Estimated cost
  - Number of sites
  - Contingent liabilities, etc.

- Amount recorded/disclosed should be best estimate at the date of the Statement of Financial Position

– Based on current technologies and known information

- Financial Management of site is critical to ensure proper accounting and reporting in Public Accounts of Canada.

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Case study: Sydney Tar Ponds

- Prior to 2002: Federal Government spent $66 million on environmental studies and clean-up attempts
- 2003: Options considered
- 2004: MOU between Government of Canada (GOC) and Government of Nova Scotia (GNS)
  - **$280 million** commitment from Government of Canada
- 2005-2006: Environmental Impact Assessment completed
- 2006: Government releases a report on approach for Sydney Tar Ponds (55 recommendations)
- January 2007: Agreement signed between GOC and GNS
  - $280 million recommitted by GOC

– 2008-2039: Remediation and monitoring activities

Further information http://www.tarpondscleanup.ca/~stpa/index.php?sid=1

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Strategies for management of liabilities for contaminated sites

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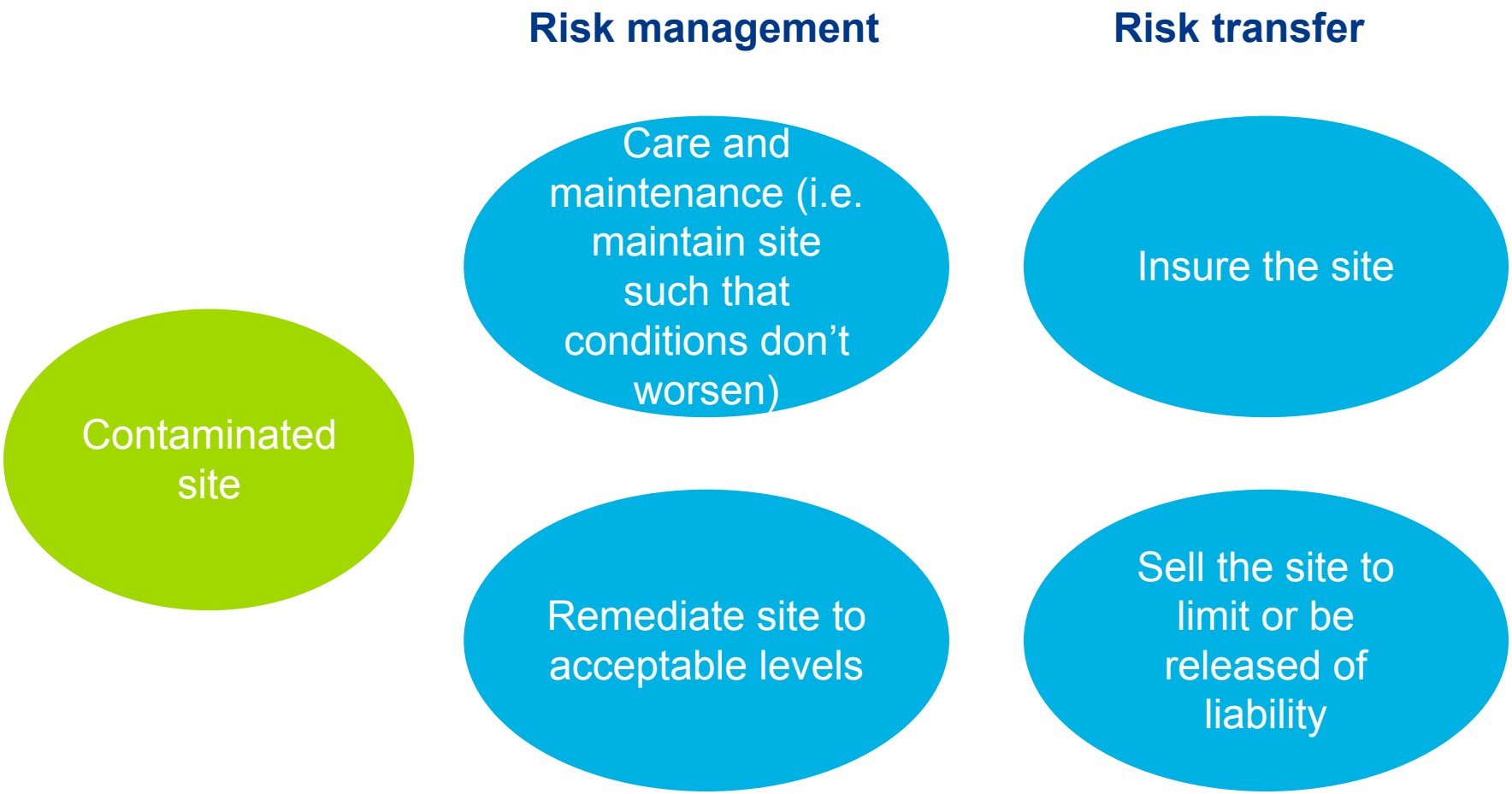
Approaches to managing contaminated sites



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Approach to financial management of contaminated sites
Leading practices

Leading practices

- Map out the process from identification of liabilities to disclosure
- Develop process for identifying liabilities
  - E.g. use a risk-based approach
- Develop process for estimating liabilities
  - Develop a standardized tool (e.g. form, database, etc.) to document any new or adjusted liabilities
  - Develop process for documenting all assumptions
  - Maintain internal and external documentation to support estimates
  - Ensure process is reproducible (i.e. if the liabilities were audited by someone else, there would be sufficient evidence for them to come to the same conclusion)
  - Ensure approvals and sign offs are obtained for liabilities

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Approach to financial management of contaminated sites

Leading practices

Leading practices

- An integrated team is best-positioned to ensure that liabilities are estimated and disclosed correctly
- Align teams of accountants, environmental professionals, and legal counsel to manage environmental liabilities

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Approach to financial management of contaminated sites

Leading practices

Leading practices

- Financial and technical team members need to speak the same language and have a common understanding of managing environmental liabilities.
- Provide training to integrated teams on process for collecting liability information and on accounting implications.

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Approach to financial management of contaminated sites

Leading practices

Leading practices

- Implement reporting tools
- Conduct quarterly reviews
- Disclose liabilities according to standards

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Stakeholder management

- Identify stakeholders
- First nations
- Local communities
- Provincial and regional government
- Non-government organizations (NGO's)

- Understand stakeholder concerns
- E.g. gather input on local geographies and ecosystems

- Communicate strategy to stakeholders regularly
- E.g. periodic newsletter, public meetings

- Integrate stakeholders (needs / expectations)

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Final thoughts

- Management of contaminated sites represent significant liability for the Government of Canada.
- Accounting standards impact how Government manages and discloses environmental liabilities and related contingent liabilities
- A thorough and consistent process, and an integrated and trained team are key to successful financial management of contaminated sites
  - Builds efficiency
  - Improves quality of disclosure
  - Supports a risk-based approach to management of contaminated sites

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Appendices

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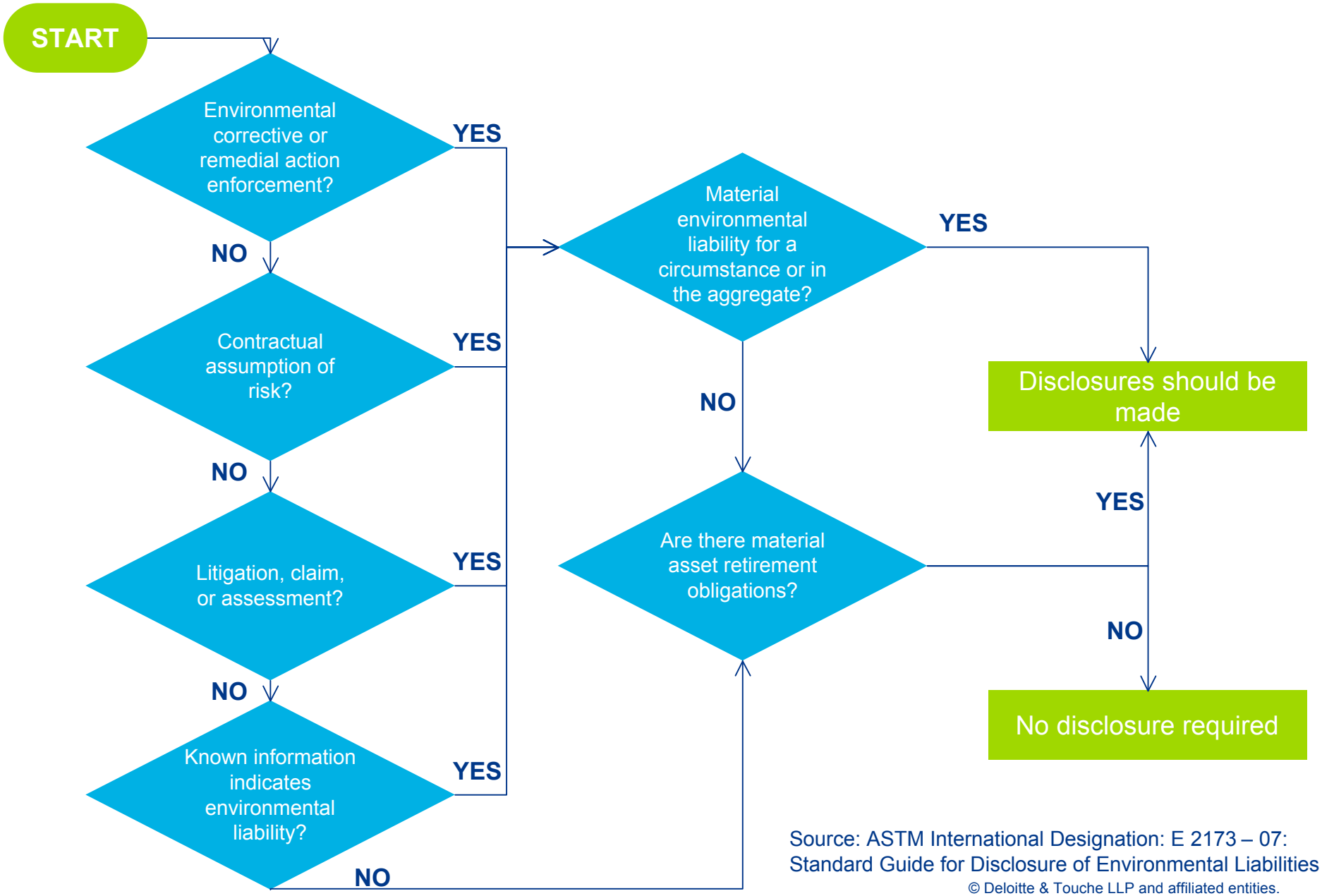
Appendix A – Guide for Disclosure Requirements



Source: ASTM International Designation: E 2173 – 07: Standard Guide for Disclosure of Environmental Liabilities

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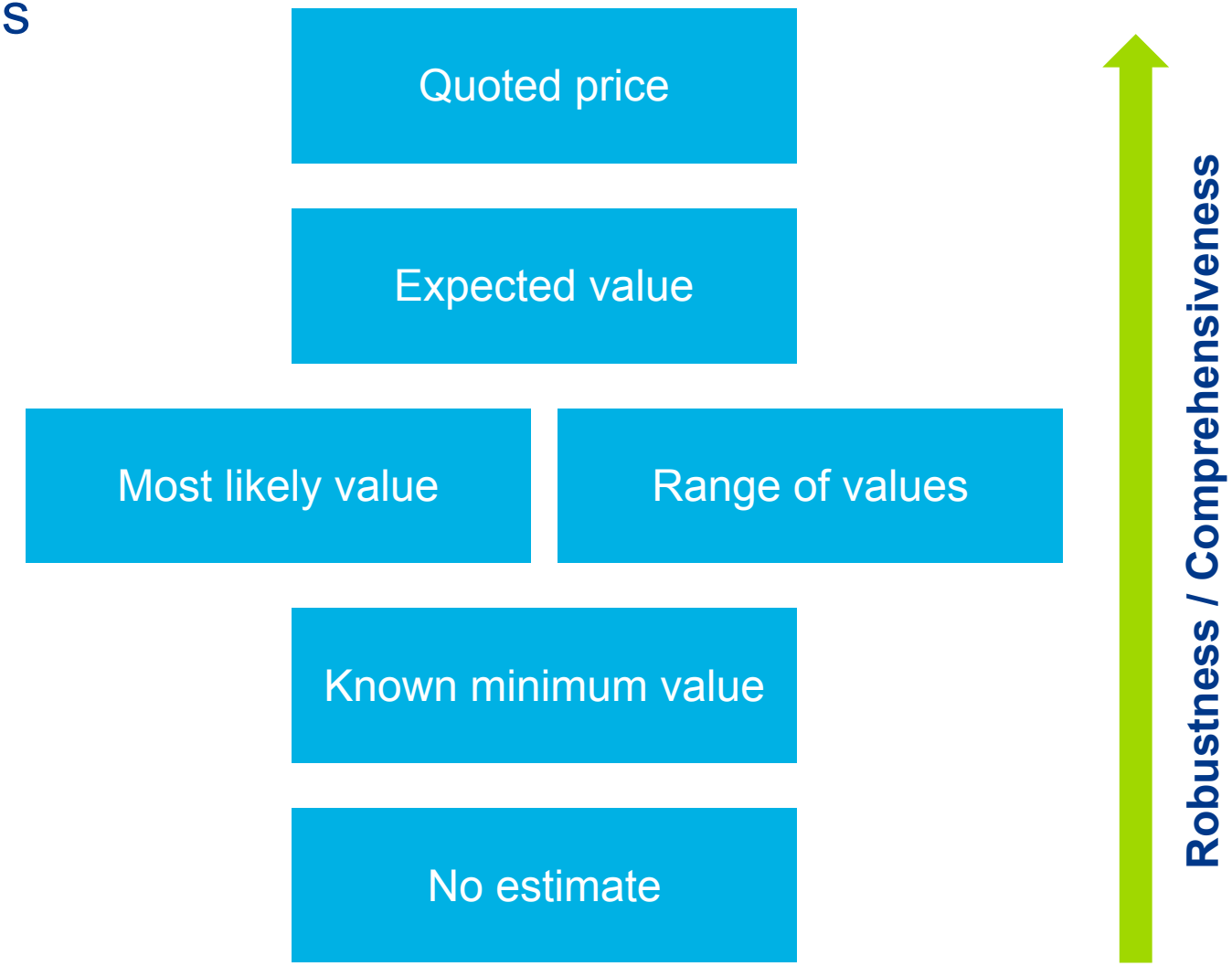
Appendix B - Estimating liabilities

Hierarchy of approaches for estimating environmental liabilities



Source: ASTM International Designation: E 2137 – 06: Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters

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Appendix C – Environmental Liability-Related Policy and Accounting Changes

- Number of policies have been updated since 2001:

Previous	Updated	Year of Change
Federal Contaminated Sites Management Policy	Policy Framework for the Management of Assets and Acquired Services	2006
Federal Contaminated Sites and Solid Waste Landfills Inventory Policy	Policy Framework of Assets and Acquired Services	2006
Policy on Accounting for Costs and Liabilities Related to Contaminated	Directive on Contingencies	2009
Treasury Board Real Property Environment Policy	Policy Framework for the Management of Assets and Acquired Services	2006

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