



REPORT

TO: Mayor Lawlor and Members of Council
FROM: Joseph Vandermeer, Deputy Treasurer
DATE: March 11, 2024
REPORT NO.: CS-2024-007
SUBJECT: Asset Retirement Obligations - Policy

RECOMMENDATION:

THAT Report No. CS-2024-007 dated March 11, 2024, regarding the Asset Retirement Obligations Policy be received;

AND FURTHER THAT Council approves the Asset Retirement Obligation Policy, attached as Appendix A to this report.

KEY POINTS:

The following are key points for consideration with respect to this report:

- Asset Retirement Obligation standard (PS 3280) was approved by the Public Sector Accounting Board in March of 2018 for implementation in fiscal years that began after April 1, 2022.
- The standard will be reflected in the Town of Halton Hills financial statements for 2023.
- KPMG has been hired to assist in the implementation of this new standard.

BACKGROUND AND DISCUSSION:

In March 2018, the Public Sector Accounting Board (PSAB) approved an accounting standard for Asset Retirement Obligations (ARO). This standard, denoted as PS 3280, was initially scheduled for implementation in fiscal years commencing after April 1, 2021. However, due to the COVID-19 pandemic, its implementation was deferred by one year, thereby setting the new effective date to April 1, 2022.

Asset Retirement Obligations are the legal obligations that the Town has with respect to the retirement of certain tangible capital assets. These obligations could include the remediation of a contaminated asset (i.e. contaminated soils or underground fuel storage tanks), appropriately disposing of hazardous materials (i.e. asbestos) and post-retirement activities (i.e. monitoring of a closed landfill site). This policy will set the framework for how the Town recognizes, measures, and discloses the legal obligations in our annual Financial Statements.

Before the introduction of PS 3280, there was no specific guidance on how to report, recognize, and measure the legal obligations associated with the retirement of long-lived tangible capital assets for public sector entities. Municipalities have generally not reflected these retirement obligations in their financial statements, as there was no formal standard requiring it.

Implementation

Throughout 2023 and the early part of 2024, the Finance team has been diligently engaged in the implementation of this accounting standard alongside KPMG. This endeavor has entailed significant commitment from personnel within the finance, asset management, and recreation (facilities management) departments, aimed at ensuring a comprehensive inventory of tangible assets subject to this standard.

The primary challenges encountered during the process of implementing this accounting standard can be categorized into two key areas:

1. Identifying the assets requiring an ARO.
2. Establishing methods for deriving reasonable estimates of the ARO.

The final listing of asset retirement obligations will be audited and disclosed in the Town's financial statements, accompanied by a note disclosure defining the methodology for assessing these obligations.

Conclusion

Compliance with PS 3280 for Asset Retirement Obligations is required for all municipalities.

The standard is intended to provide a practical approach for municipalities to better prepare themselves to account for the future costs related to the retirement of an asset.

The implementation of this standard permitted the Town to learn more about its assets, capture new and improved information, and document any necessary asset retirement obligations.

STRATEGIC PLAN ALIGNMENT:

This report is administrative in nature and does not have an impact on the Town's Strategic Plan.

RELATIONSHIP TO CLIMATE CHANGE:

This report is administrative in nature and does not directly impact or address climate change and the Town's Net Zero target.

PUBLIC ENGAGEMENT:

Public Engagement was not needed as this report is administrative in nature.

INTERNAL CONSULTATION:

Internal Consultation was not needed as this report is administrative in nature.

FINANCIAL IMPLICATIONS:

This policy is intended to improve the Town's financial reporting, asset management practices, and planning processes. While there is no immediate impact on specific financial results, the implementation of the policy promotes transparency and strategic financial management, which in turn can result in effective resource allocation.

Reviewed and approved by,

Moya Jane Leighton, Director of Finance & Town Treasurer

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer