

16.2 Environmental Liabilities

Policy Statement

It is the policy of the Province of Nova Scotia to record an environmental liability for contaminated sites in those cases where there is a legislative, regulatory, acquisition and divestiture proceedings, or contractual requirement for the Province to remediate the site.

Definitions

BETTERMENTS

A betterment is the cost incurred to enhance the service potential of a capital asset. Service potential is enhanced if one of the following occurs

- there is an increase in the previously assessed physical output or service capacity;
- associated operating costs are lowered;
- the useful life is extended; or
- the quality of output is improved.

Betterments and replacements include additions to assets or a substitution of a component part of an asset. The distinguishing feature between a betterment and a replacement is that a betterment is the substitution of a better component for the one currently used. A replacement on the other hand, is the substitution of a similar component.

Betterments in excess of the asset threshold for that asset are recorded as capital assets whereas replacements and low dollar betterments are recorded as ordinary operating expenditures.

CONTAMINATED SITES

Such sites can be categorized as one of the following types

1) Soil Contamination

Damages can result from a variety of sources including, but not limited to, effluent storage or treatment pond seepage into soils or bedrock, underground tank leakages, direct spills on the ground, landfills which are not properly constructed or maintained and leakage from pipelines.

2) Groundwater Contamination

This can result from the infiltration of contaminants discharged at or below the surface. Oil and gas or industrial waste disposal wells can cause the migration of contaminants into the groundwater.

3) Surface Water Contamination

Raw sewage or regulated discharges from sewage treatment plants, discharges from industrial plants, storm water, agricultural run-off and other types of pollution which finds its way into the water can result in significant surface water contamination.

4) Air Emissions

Emissions from smoke stacks, industrial plant leakages, combustion engines and other sources can pollute the air.

5) “Sick” Buildings

Some buildings have been deemed “sick buildings” due to overwhelming problems associated with poor air quality, mould, or the presence of asbestos. These are commonly referred to as environmental deficiencies and are included in this policy.

CONTINGENCY

A contingency is defined by PSAB Handbook Section 3300 as follows

par.03 "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 fails to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability."

CONTRACTUAL OBLIGATIONS

A contractual obligation is defined by PSAB Handbook Section 3390 as follows

par.03 "Contractual obligations are obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met.

par.04 Contractual obligations are distinct from liabilities as there has been no past transaction or event obligating the government to a future sacrifice of economic benefits at the financial statement date. Until a transaction or event occurs under a contract, a government does not have a liability. Disclosure of information about contractual obligations relates to the unperformed portion of those contracts.

par.05 Contractual obligations are distinct from contingent liabilities as there is no uncertainty related to the contractual obligation's existence."

LIABILITY

A liability has been defined in Section 3200 of the PSAB Handbook as an obligation requiring the following three characteristics

par.05 "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. Liabilities have three essential characteristics:

- a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;
- b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
- c) the transactions or events obligating the government have already occurred."

Once an obligation has been identified to be a liability as per above, the criteria for recording (recognizing) liabilities as per Section 3200 of the PSAB Handbook are as follows

par.03 "Liabilities should be recognized in the financial statements when

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

Policy Objectives

The objective of this policy is to ensure that liabilities arising from contaminated sites are appropriately, adequately and consistently accounted for by the Province of Nova Scotia. The policy supports the Province's financial reporting objectives in the following ways:

- Provides more useful and relevant information than cash basis accounting;
- Ensures compliance with PSAB accounting standards;
- Provides the users of the financial statements an opportunity to assess the financial consequences of the Province's decision making with respect to environmental responsibilities, and to plan for the future cash flow requirements; and

- Supports the tangible capital assets policy from a valuation basis as environmental conditions that impair the value of provincial assets should be recognized in the financial statements when the cost of the impairment becomes known.

Application

This policy applies to all government departments and public service agencies. Entities within the Government Reporting Entity are encouraged to adopt this policy to enhance accountability and consistency of information provided.

Policy Directives

Environmental sites may exist from past actions or may have arisen in the current year. The mere existence of an environmental site does not mean there is a clean up liability to record. Some sites are better left undisturbed if there are no dangers to users and neighbours of the property. The degree of contamination and the use of the property will be assessed by a licensed environmental officer to determine the necessary clean up efforts required.

An environmental liability should be recorded when

- 1) site restoration is required by legislation or regulation - meaning government has approved and committed to the clean up project;
- 2) the property is undergoing divestiture proceedings - the government rarely transfers an environmental site to others without cleaning up the contamination or pledging to undertake such work in the future;
- 3) a legally enforceable contractual commitment binds the government to perform the clean up project; or
- 4) an order to clean up the property has been issued by Department of Environment and Labour.

CONSTRUCTIVE OBLIGATION

In the absence of contractual requirements, the Province may choose to remediate an environmental site. The Province essentially loses discretion over performing the remediation when it publicly announces or communicates this promise. At that point, public expectations are set and the related sum must be recorded as a constructive liability. The future incurrence of costs is assured towards contamination events of the past even in the absence of any other contractual or binding requirement.

The site may or may not be owned by the Province. An environmental remediation project can include components of both site restoration and betterment. That portion related to restoration of a site to its original state should be expensed as incurred. That portion related to the betterment, as defined above, should be capitalized; added to the cost of the asset and amortized accordingly.

An environmental liability should be evaluated independently from any potential claim for recovery. If the liability is recorded, any claim for recovery should be recognized and reduce the liability when the probability of recovery is likely. If there is no liability recorded but guaranteed cost-sharing exists to assist in the remediation, the recovery is not recorded.

The valuation of an environmental liability should be based on current facts, technology available for remediation purposes and currently enacted laws. In the case where management has determined the amount of liability to fall within a range and no amount within the range can be determined to be the better estimate, the minimum amount of the range should be recorded.

In the absence of a formal requirement to perform the remediation work, a contingency may exist. Disclosure requirements should be followed as outlined in the CICA-PSAB Handbook section 1500 General Standards of Financial Statement Presentation, sub-section on Contingencies.

Policy Guidelines

Judgement is required when there are limitations on “known” information. It is not the intent of this policy to recognize environmental liabilities of the unknown. Sufficient information to assess the situation must be available before recording any liability. Each circumstance will be assessed individually to determine the accounting implications, materiality and compliance with accounting standards.

Accountability

Government Accounting is responsible for the development, communication, implementation and periodic review of this policy.

Senior Management of the departments and provincial public service agencies is responsible to ensure all environmental liabilities are accounted for in accordance with this policy. This includes those liabilities which are recorded and those which are disclosed.

Monitoring

Government Accounting will monitor the application of this policy as it relates to related situations which arise throughout the year and for purposes of preparation of year end financial statements.

Internal Audit will monitor the application of this policy as it relates to its reviews of internal controls and general adherence to policy.

References

CICA–PSAB Handbook

Notes from Treasury Board Secretariat, Government of Canada

Financial Statements of other provinces in Canada

CPA Journal – “Perspectives on Environmental Accounting”

IFAC – Study 6 “Accounting for and Reporting Liabilities”

Enquiries

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