

Municipality of Chatham-Kent

Finance, Budget, Information Technology & Transformation

Financial Services

To: Mayor and Members of Council

From: Brock Priddle, CPA, CGA, Manager, Corporate Accounting

Date: June 13, 2023

Subject: Sole Source – Consulting services – Asset Retirement Obligations Compliance (PS3280)

Recommendations

It is recommended that:

1. KPMG be contracted to provide advisory services to Chatham-Kent regarding the implementation of accounting standard PS3280 (Asset retirement obligations) in the amount of \$61,056 (including HST).
2. The total cost of this contract be funded from the Property Disposition Reserve.

Background

In August 2018, new PS3280 Asset Retirement Obligations was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS3280 establishes standards on how to account for and report a liability for asset retirement obligations (ARO). As asset retirement obligations associated with landfills are included in the scope of new PS3280, the PS3270 Solid Waste Landfill Closure and Post-Closure Liability will be withdrawn. The main features of this standard are as follows:

- An ARO represents a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic matter.
- When an asset is no longer in productive use, the associated asset retirement costs are expensed.
- Measurement of the ARO liability should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date.

- Subsequent measurement of the ARO liability results in either a change in the carrying amount of the related tangible capital asset or an expense. The accounting treatment depends on the nature of the remeasurement and whether the asset remains in productive use.
- The best method to estimate the liability is often a present value technique.

This standard was to be effective for fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022.

Comments

Due to the multi-departmental participation and the complexities of PS3280, advisory services from an expert in this field are required to ensure Chatham-Kent achieves compliance. The services of the consultant will ensure Chatham-Kent has the proper tools and processes to effectively identify, evaluate, and account for ARO's utilizing internal resources moving forward.

KPMG is an industry leader in the assessment and accounting of ARO's. Chatham-Kent does not have expertise on the evaluation and quantification of future liabilities associated with in-scope assets. KPMG can utilize their experience and industry knowledge to inform the valuation process and efficiently assess our extensive portfolio of assets to determine what assets are in scope of this standard and which assets can be ignored.

This contract will include the review and identification of in-scope assets, financial measurement of the associated liabilities, presentation of this information on the Chatham-Kent financial statements, and the development of a process to be used by staff on a go forward basis.

The Procurement By-law #166-2020 was adopted by Council on December 14, 2020. The Procurement Section 125 – Sole Source states the following:

A direct Award of Contract may be used to purchase Deliverables from Municipal funds if there is only one Supplier that provides the product. Sole Source purchases that meet these criteria must have prior approval authorized by:

- a. The Chief Administrative Officer up to \$100,000.
- b. Council above \$100,000.

This expense was not included in the 2023 Budget and there are no existing operational budget lines to fund this expense. It is recommended that the associated costs be funded from the Property Disposition Reserve. As per the Reserve and Reserve Funds

Policy, transfers to or from reserves greater than \$25,000 require the approval of Council.

Areas of Strategic Focus

The recommendations in this report support the following areas of strategic focus:

			
Economic Prosperity	Healthy & Safe Community	People & Culture	Environmental Sustainability
1.1			

Consultation

The Chief Financial Officer/Treasurer supports the recommendations.

Communication

Communication is proposed to be through the inclusion of this report on the Council agenda and related communications.

Diversity, Equity, Inclusion and Justice (DEIJ)

This report does not have implications related to diversity, equity, inclusion or justice.

Financial Implications

Pending approval of this request, Chatham-Kent will enter a contract with KPMG for these services. All associated costs will be funded through the Property Disposition Reserve.

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