



District of Lantzville

Policy No.: 6000-5

Date of Implementation: December 9, 2019

Council Resolution: C19-200

Date Amended: -

Council Resolution: -

CONTAMINATED SITES POLICY

1) POLICY STATEMENT

The Public Sector Accounting Standards Board (“PSAB”) has introduced PS 3260 *Liability for Contaminated Sites* (“PS 3260”), for all reporting periods beginning on or after April 1, 2014. This accounting standard provides guidance on the recognition, measurement and disclosure of liabilities resulting from the remediation of contaminated sites.

The Contaminated Sites Accounting and Reporting Policy has been drafted for the District of Lantzville and integrates the guidance in PS 3260 for the management of contaminated sites.

2) INTRODUCTION AND TRANSITION

The Public Sector Accounting Board (“PSAB”) has issued PS 3260 *Liability for Contaminated Sites* (“PS 3260”), which requires the recognition, measurement and disclosure of liabilities resulting from remediation of contaminated sites.

PS 3260 applies to fiscal years beginning on or after April 1, 2014, meaning the District of Lantzville will be required to report liabilities under this standard on an annual basis for all reporting periods thereafter.

3) DEFINITIONS

“**Candidate Site**” is an area of District of Lantzville land identified as potentially posing risks to human health and the environment on which investigations will begin to determine the extent of the contamination.

“Contaminated Site” is defined in PS 3260 as a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. A contaminated site does not include airborne contamination or contaminants in the earth’s atmosphere unless such contaminants have been introduced into soil, water bodies or sediment. Furthermore, under the Environmental Management Act (EMA), SBC 2003, Chapter 53, a contaminated site means an area of land in which the soil or any groundwater lying beneath it, or the water or the underlying sediments, contains:

- (a) A hazardous waste; or,
- (b) Another prescribed substance.

In quantities or concentrations exceeding prescribed risk based on numerical criteria or standards or conditions.

“Contamination” means the presence in soil, sediment, water or groundwater of:

- (a) A hazardous waste; or,
- (b) A substance prescribed for the purpose of the paragraph (b) of the definition of “Contaminated Site” in quantities or concentrations exceeding the criteria, standards or conditions prescribed for the purposes of the definition of “Contaminated Site”.

“Contingent Liabilities” are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. In other words, contingent liabilities are potential liabilities that could result in the disbursements of cash or assets due to existing conditions or situations which currently have some uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the government’s control occur or fail to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability.

“Detailed Site Investigation” (DSI) means a Detailed Site Investigation and report under, chapter 53, section 41, of the EMA that complies with the British Columbia (“BC”) environmental regulations.

“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 transaction or events obligating the government have already occurred.

“Non-productive sites” means sites (e.g. District of Lantzville Land) that:

- (a) have been used or occupied in the past by an individual or legal entity, with or without authorization from the District of Lantzville, and are currently not covered by a tenure or other authorization that permits use or occupation, and are unlikely to be used under tenure, or by the District of Lantzville in the future; or
- (b) have been used by the District of Lantzville in the past and are unlikely to be used by the District of Lantzville or another party under a government authorization in the future.

A non-productive site can include the portion of a productive site that meets the above definition. This may include sites with expired land tenures, expired leases or that are otherwise no longer being used by third parties.

“Contaminated Sites Accounting and Reporting Liability Policy” means the guidance for the recognition, measurement and disclosure of contaminated sites, which will be approved by Council.

“Preliminary Site Investigation” means a Preliminary Site Investigation and report under chapter 53, section 41, or the EMA site investigations that complies with the regulations.

“Priority Site” is an area of land that has been identified for current action based on potential high risks to human health and the environment in accordance with this policy.

“Procedures” means the methods used to implement the policies in practice.

“Productive Sites” means sites (e.g. District of Lantzville Land) that:

- (a) are currently under tenure or other authorization that permits an individual or legal entity to use or occupy the land, and the sites are actively being used or occupied or are likely to be occupied in the future; or,
- (b) are currently being used or occupied by the District of Lantzville or District Subsidiaries, or have been used by the District of Lantzville or District Subsidiaries in the past and are likely to be used again within the foreseeable future.

“Reasonable estimate” means a dollar amount developed using the best available information at a point in time and using appropriate management assumptions and judgment.

“Remediation” means action to eliminate, limit, correct, counteract, mitigate or remove any contaminant or the adverse effects on the environment or human health or any contaminant. It includes, but is not limited to, the following:

- (a) Preliminary Site Investigations, Detailed Site Investigations, analysis and interpretation, including tests, sampling, surveys, data evaluation, risk assessment and environmental impact assessment;
- (b) evaluation of alternative methods of remediation;
- (c) preparation of a remediation plan, including a plan for any consequential or associated removal of soil or soil relocation from the site;
- (d) implementation of a remediation plan;
- (e) monitoring, verification and confirmation of whether the remediation complies with the remediation plan, applicable standards and requirements imposed by the District of Lantzville;
- (f) other activities prescribed by the District of Lantzville.

“Responsible Person” means a person responsible for remediation of Contaminated Sites.

4) IDENTIFICATION AND CLASSIFICATION OF SITES NOT IN PRODUCTIVE USE

This section details and establishes the parameters to be applied for the sites that are within the scope of this Contaminated Sites Accounting and Reporting Policy.

4.1 Policy

An accounting and reporting liability for remediation for the District of Lantzville may result from items such as:

- (a) All or part of an operation of the District of Lantzville that is no longer in productive use;
- (b) All or part of an operation outside the District of Lantzville, that is no longer in productive use, for which the District of Lantzville accepts responsibility;
- (c) Changes to environmental standards relating to all or part of an operation that is no longer in productive use; and,
- (d) An unexpected event resulting in contamination.

4.2 Procedures

The District of Lantzville will identify those sites included in its operations that fall under the definition of being a non-productive site.

The non-productive site identification will consider:

- (a) Whether any portion of a site in productive use is not being actively used in operations.
- (b) Whether any portion of a site in productive use is known to have had an unexpected event occur that could have potentially resulted in contamination.

This assessment for unexpected events will need to be performed on an annual basis.

5) RECOGNITION OF A LIABILITY

This section details and establishes the policy and application approach for whether to recognize a remediation liability for sites within the scope of this Contaminated Sites Accounting and Reporting Policy.

5.1 Policy

A liability for remediation of contaminated sites that are not in productive use will be recognized when, as at the financial reporting date:

- (a) An environmental standard exists;
- (b) Contamination exceeds the environmental standard;
- (c) The District of Lantzville is directly responsible or accepts responsibility;
- (d) It is expected that future economic benefits will be given up; and,
- (e) A reasonable estimate of the amount can be made.

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied.

5.2 Procedures

5.2.1 Identification of environmental standards

An environmental standard is generally set out in the form of a statute, regulation, bylaw, order, permit, contract or agreement resulting in it being legally enforceable and binding. The environmental standard may be quantitative and/or qualitative.

In British Columbia, remediation standards are reflected in the *Environmental Management Act* (“EMA”), the Contaminated Sites Regulation and Hazardous Waste Regulation, which provide numeric standards for a wide range of organic and inorganic substance. The legislation also provides options to remediate contaminated sites on risk-based standards. Risk-based management can be cost-effective and consistent and considers current and future site use.

A change in or adoption of a new environmental standard may result in a future obligation to remediate existing contamination. However, until the standard is changed or adopted, the conditions required to recognize a remediation liability do not exist and no liability will be recorded.

5.2.2 Preliminary Screening Assessment of Contamination Relative to Environmental Standard

Prior to undertaking field based environmental assessments, for those non-productive sites identified in section [6.2] above, a preliminary screening assessment will take place. It is expected for each site that this preliminary screening will start by determining if an activity potentially causing contamination has taken place at a site in the past.

Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists and should be recognized. The determination will depend on the probability that future site investigations will confirm that contamination that exceeds an environmental standard existed at the financial statement date.

The determination of the probability is based on the known information about the site, reasonable assumptions and management's judgment. If it is likely that future site investigations will confirm contamination, a liability would be recognized if the amount can be reasonably estimated.

If, however, based on the preliminary screening assessment, potential contamination does not appear likely then no further work is required on the sites.

5.2.3 Responsibility for Contaminated Sites

The determination of responsibility may be a difficult and resource intensive exercise especially for historic industrial activities on the land base. The District of Lantzville and each subsidiary entity will ensure it uses its own best methods to establish those non-productive sites for which it has responsibility.

Records related to land title, approvals for resource development or activities, research of corporate records, and applicable taxation records could be reviewed to determine who is responsible and if the responsible entities still exist.

A legal opinion may be required to determine responsibility and establish certainty related to responsibility for contamination for each individual or group of similar sites.

5.2.3.1 Polluter Pays Principle

The District of Lantzville will adopt a 'Polluter Pays' principle, where the costs associated with environmental remediation are borne by the parties responsible for the contamination. Responsibility for remediation of a contaminated site can be established either by the District of Lantzville being directly responsible for the remediation or by the District of Lantzville accepting responsibility. In either case, the responsibility will be assessed on a site by site basis.

5.2.3.2 Direct Responsibility

Factors that establish direct responsibility include:

- (a) The contamination occurred because of the District of Lantzville's own activities;
- (b) The contamination occurred as a result of activities on land and a responsible person cannot be identified or, if identifiable, lacks the means to remediate the damage;
- (c) A legal obligation exists that establishes a clear duty or responsibility to another party that justified the recognition of the liability. The legal obligation can result from agreements or contracts, legislation of another government, Treaty settlements, or a government's own legislation; and,
- (d) A legally enforceable obligation for the District of Lantzville.

5.2.3.3 Accepting Responsibility

In the event that the District of Lantzville is not directly responsible for remediation, the District of Lantzville may voluntarily accept responsibility for the remediation of a contaminated site through its own actions or promises. These may arise in situations where there is a reliance on a promise and an obligation is inferred from the facts of the situation, as opposed to a legally enforceable agreement, contract or legislation.

For an assumed obligation to be considered a liability, it still must satisfy the criteria of a liability. It should be noted that obligations that are based on intention or a District of Lantzville policy may not satisfy the criteria for recognizing a liability.

If it is determined that the District of Lantzville has direct responsibility for a site, or accepts responsibility for a site, then the analysis for the site(s) is continued (from Section 7.2.4 onwards).

5.2.3.4 Unclear Responsibility

In situations where responsibility for contamination is unclear, consideration will be given to the probability that a future event will confirm responsibility.

- If it is likely¹ that a future event will confirm the District of Lantzville's responsibility, then a liability will be recognized if the amount can be reasonably estimated. For example, if it is likely that the historical site operator will not be found or have sufficient financial means to remediate the contamination, then the contamination may become the District of Lantzville's responsibility and a liability will be recorded.
- If it is unlikely, but there is still some uncertainty, that a future event will confirm the District of Lantzville's responsibility, then no liability is recognized, but the existence, nature and extent of a contingent liability is disclosed.
- If the outcome of the future event cannot be determined (i.e. the decision regarding which party is responsible to remediate the contamination), the existence, nature and extent of the contingent liability will be disclosed in the financial statements.

5.2.3.5 No Responsibility

If it is determined that the District of Lantzville is not responsible for a site then no further analysis is required and no liability would be recorded except to perform an annual review of the site or group of sites to determine if there has been a change in the District of Lantzville's responsibility for the site.

¹ The term 'likely' is referred to in PS3300 *Contingent Liabilities* as the probability of the occurrence (or non-occurrence) of the future event(s) is high. This assessment of likelihood threshold is a matter of management judgment. The guidance from BC Ministry of Finance Core Policy and Procedures manual states that 'highly likely' has a threshold of 70%.

5.2.4 Expected Future Economic Benefits

Consideration is then given to whether future economic benefits will be given up in order to remediate the contamination. In most circumstances, the future economic benefit given up is cash (i.e. payment to clean-up the contamination), but it can also include other costs incurred to perform the remediation activities.

It may therefore be necessary to estimate the amount of a liability in situations when a site investigation has not been completed, but there is evidence to suggest that contamination exists that exceeds an environmental standard.

Uncertainty over the timing of expected remediation activities does not impact the recognition of a liability. For instance, if remediation activities are required but will not be performed in the foreseeable future, a liability will still be recorded in the current period. However, as described in the measurement section below, the timing of the remediation will impact the present value of the liability recorded.

5.2.5 Reasonable Estimate of the Liability

Based on the information available about the site (or collectively over a group of sites), including the expected level of remediation, the District of Lantzville will determine whether it is possible to develop a reasonable estimate of the remediation liability.

- The precision of estimates should be differentiated from the ability to make any estimate. For example, the remediation liability for a site may be estimated as being between \$100,000 and \$3,000,000. Although the wide range of the estimate implies a lack of precision, an amount within the range could be determined based on the information on hand and judgment and a liability could be estimated.
- If the environmental assessment provides a range for the estimate, judgment will be used to determine the appropriate point estimate within the range.

6) Measurement of a Liability

6.1 Policy

The estimate of a remediation liability for the District of Lantzville will include costs directly attributable to remediation activities.

Costs will include post-remediation operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site. The estimate would also include costs of assets acquired as part of remediation activities to the extent those assets have no alternative use.

6.2 Procedures

6.2.1 Costs Related to Remediation Activities

The estimate of the liability will include the costs directly attributable to the remediation activities, including but not limited to:

- Payroll and benefits;
- Equipment and facilities;
- Materials;
- Legal and other professional services; and,
- Costs related to natural resource damage if incurred as part of the environmental standard.

The cost of post-remediation operating, maintenance and monitoring will also be included in the estimate of the liability if these costs are integral to the remediation strategy.

The cost of assets acquired as part of the remediation activities is included in the estimate of the liability to the extent that the assets have no alternative use.

Cost estimates will be based on the best information available as at the financial statement date. The estimate will be reviewed at each financial statement date with revisions to the estimate recognized as a current period expense (recovery).

The estimate of the liability will be reduced by any costs expected to be recovered from third parties when there is an appropriate basis for measuring the recoveries, the recoveries can be reasonably estimated, and it is expected that the recoveries will be obtained.

Disbursements will be deducted from the reported liability when they are made.

6.2.2 Review of the Estimate in Years Subsequent to the Initial Estimate

On an annual basis, in years subsequent to the initial estimate of the remediation liability, the liability estimate will be reviewed and updated for any new information available. This may include consideration of the following:

- Significant changes to the site;
- The impact of remediation expenses incurred in the period
- Additional environmental assessments performed
- Changes in remediation strategies
- Technological changes
- Experience gained
- Changes in assumptions
- Actual expenditures incurred
- Changes in environmental standards
- Unforeseen changes in cost estimates

7) Disclosure of a Liability

7.1 Policy

The District of Lantzville financial reporting will disclose information about:

- (a) The nature and source of the liability;
- (b) The basis for the estimate of the liability;
- (c) When a net present value technique is used, the estimated total undiscounted expenditures and discount rate;
- (d) The reasons for not recognizing a liability; and,
- (e) The estimated recoveries.

Appendices:

- Appendix A – Flowchart of Contaminated Sites Accounting and Reporting

Appendix A – Flowchart of Contaminated Sites Accounting and Reporting

