

**Quarterly Financial Report (QFR)
for the Quarter Ended June 30, 2022**

National Defence

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Quarterly Financial Report for the Quarter Ended June 30, 2022

1. Introduction

This quarterly report has been prepared by management as required by [section 65.1 of the Financial Administration Act](#) and in the form and manner prescribed by the Treasury Board. This report should be read in conjunction with the [Main Estimates - 2022–23 Estimates](#) and [Supplementary Estimates \(A\), 2022–23](#). This report has not been subject to an external audit or review.

Strong, Secure, Engaged (SSE) is the defence policy that presents a vision of and an approach to defence for the government that will make Canada:

- **strong at home**, with a military ready and able to defend its sovereignty and to assist in times of natural disaster, support search and rescue, or respond to other emergencies
- **secure in North America**, active in a renewed defence partnership in the North American Aerospace Defense Command (NORAD) and with the United States to monitor and defend continental airspace and ocean areas
- **engaged in the world**, with the Canadian Armed Forces doing its part in Canada's contributions to a more stable, peaceful world, including through peace support operations and peacekeeping

The department continues to carry out its mandate to achieve results related to 7 core responsibilities including Internal Services. A summary description of these core responsibilities can be found in the [Departmental Plan 2022–23](#).

1.1 Global Pandemic (COVID-19)

The worldwide spread of COVID-19 has impacted the department by causing it to activate its business continuity plan in mid-March 2020 whereby non-critical employees have since been working remotely from home. The successful vaccination of nearly 90% of eligible Canadians against COVID-19 and decrease of case counts have led the Government of Canada to suspend the mandatory COVID-19 vaccination policy for federal public servants effective June 20, 2022. Meanwhile, the Canadian Armed Forces are assessing the need to amend the CAF directives on COVID-19 vaccination. The department continues to assess future resurgences of cases or new variants of concerns, the status of resumption efforts, and the need to constrain and/or resume activities as required while ensuring that the protection of the physical and mental health of the Defence Team and Canadians remains the priority. The department remains uncompromising in the protection of critical capabilities that are essential to the defence of Canada and protection of Canadians.

1.2 Basis of presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying statement of authorities includes the department's spending authorities granted by Parliament and the Treasury Board Secretariat which are used by the department consistent with the *2022–23 Main Estimates* and *Supplementary Estimates (A), 2022–23*. This quarterly report has been prepared using a special-purpose financial reporting

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framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before money can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts, or through legislation in the form of statutory spending authority for specific purposes.

The department uses the full accrual method of accounting to prepare and present its annual consolidated departmental financial statements, which are part of the departmental results reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis. The main difference between the quarterly financial reports and the consolidated departmental financial statements is the timing of when revenues and expenses are recognized. The quarterly financial report includes revenues only when the money is received and expenses only when the money is paid out. The consolidated departmental financial statements report revenues when they are earned and expenses when they are incurred. In the latter case, revenues are recorded even if cash has not been received and expenses are incurred even if cash has not yet been paid out.

2. Highlights of fiscal-quarter and fiscal-year-to-date results

This section provides financial highlights and explanations for differences between the fiscal-quarter and fiscal-year-to-date results for the quarter ended on June 30, 2022, and the results of the same period last year.

2.1 Statement of authorities

When compared to those of the same quarter of the previous year, the department's year-to-date budgetary authorities available for use have increased by \$2,172.4 million. As reflected in [Table 1: Statement of authorities](#), the total budgetary authorities increased from \$24,300.1 million in 2021–22 to \$26,472.5 million in 2022–23. Major reasons for the changes are outlined below.

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Year-to-date variances in authorities available for use (in millions of dollars)

Initiative	Operating	Capital	Grants and contributions	Payments in respect of the long-term disability and life insurance plan for members of the Canadian Forces	Budgetary statutory authorities	Total variances*
Contributions to the Ukraine operation	n/a	n/a	500.0	n/a	n/a	500.0
Pay administration – Federal public servants and Canadian Armed Forces	351.0	n/a	n/a	n/a	134.7	485.7
Operation and sustainment (fleet maintenance) of military capabilities and operating requirements	429.0	n/a	n/a	n/a	n/a	429.0
Heyder-Beattie Class Action	338.0	n/a	n/a	n/a	3.0	341.0
Budget 2021 initiatives	165.4	32.5	65.9	n/a	3.6	267.4
Implementation of SSE	98.5	(1.3)	(0.2)	n/a	13.7	110.7
Major capital equipment and infrastructure projects	(94.1)	178.9	n/a	n/a	8.5	93.3
Service Income Security Insurance Plan (SISIP)	n/a	n/a	n/a	23.3	n/a	23.3
Miscellaneous departmental requirements	(81.0)	50.8	1.5	n/a	32.9	4.2
Travel reduction	(82.2)	n/a	n/a	n/a	n/a	(82.2)
Cumulative variance in authorities available for use	1,124.6	260.9	567.2	23.3	196.4	2,172.4

* A positive variance indicates an increase in authorities available for use in the first quarter (Q1) of 2022–23 compared to Q1 2021–22 and a negative variance indicates a decrease in authorities available for use in Q1 2022–23 compared to Q1 2021–22.

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The **year-to-date net increase in authorities of \$2,172.4 million** over the first quarter in 2021–22 can be explained by variances in funding for a number of initiatives.

- **Contributions to the Ukraine operation (increase of \$500.0 million)**

The increase is due to receiving funding in *Supplementary Estimates (A) 2022–23* to support Ukraine in its efforts to defend its sovereignty by providing both lethal and non-lethal aid as announced in Budget 2022.

- **Pay administration – Federal public servants and Canadian Armed Forces (increase of \$485.7 million)**

The increase is due to adjustments to the rates of pay and allowances for Canadian Armed Forces members and adjustments made to the terms and conditions of service or employment of the federal public administration in various collective agreements.

- **Operation and sustainment (fleet maintenance) of military capabilities and operating requirements (increase of \$429.0 million)**

In order to provide ongoing support for operating and capital requirements, the department received additional funding to offset sustainment growth and the inflationary impact on the defence budget.

- **Heyder-Beattie Class Action (increase of \$341.0 million)**

The Heyder and Beattie class actions sought damages related to gender-based discrimination, sexual assault and sexual harassment. This funding will be used to continue to fulfill obligations and payments under the final agreement, including compensating claimants, administering claims, and implementing the restorative engagement program.

- **Budget 2021 initiatives (increase of \$267.4 million)**

Funding for initiatives that were announced in Budget 2021 pertaining to:

- the North Atlantic Treaty Organization (NATO) Readiness Initiative and the NATO Contribution Programs
- modernizing the department's information management and information technology systems
- sustaining health services for the Canadian Armed Forces
- addressing sexual misconduct and gender-based violence in the military

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- **Implementation of SSE (increase of \$110.7 million)**

The net increase in funding is primarily related to incremental demands required to execute the overall SSE policy commitments, including funding requirements for the expansion of the Canadian Armed Forces and civilian support, and for capital investments.

- **Major capital equipment and infrastructure projects (increase of \$93.3 million)**

The net increase in funding is due to modifications to the multi-year spending profile of major capital equipment and infrastructure projects. These adjustments serve to align financial resources with project acquisition timelines. This increase in cash requirements is mainly due to funding to support the Joint Support Ship and the Canadian Surface Combatant projects. These increases are partially offset by decreases in cash requirements related to the Fixed-Wing Search and Rescue Aircraft Replacement and the Light Armoured Vehicle Reconnaissance Surveillance System Upgrade projects.

- **Service Income Security Insurance Plan (SISIP) (increase of \$23.3 million)**

An increase to payments in respect of the long-term disability and life insurance plan for members of the Canadian Forces to align with the recent increases to the Canadian Forces rates of pay.

- **Miscellaneous departmental requirements (increase of \$4.2 million)**

The net increase is due to miscellaneous funding variances. The increase in statutory authorities is mainly due to an increase in contributions to employee benefit plans for military and civilians and an increase in the proceeds from disposal of surplus Crown assets. This increase was partially offset by a decrease in Operating expenses related to a transfer to Shared Services Canada to support the enterprise funding model for government IT services. Furthermore, in 2022–23, the department requested a vote transfer from Operating to Capital to support the implementation of a common definition of the capital expenditures vote. The transfer resulted in a net decrease in Operating funding and an increase in Capital funding in 2022–23 compared to 2021–22.

- **Travel reduction (decrease of \$82.2 million)**

There has been a permanent ongoing reduction for travel as announced in Budget 2021.

2.2 Departmental budgetary expenditures by standard object

When compared to those of the same quarter of the previous fiscal year, the department's year-to-date total net budgetary expenditures have increased by \$599.0 million. As reflected in [Table 2: Departmental budgetary expenditures by standard object](#), the expenditures increased from \$4,481.1 million in 2021–22 to \$5,080.1 million in 2022–23.

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Year-to-date variances in net budgetary expenditures (presented by standard object) (in millions of dollars)

Standard object	2022–23 Year-to-date used at quarter-end	2021–22 Year-to-date used at quarter-end	Year-to- date variance
Professional and special services	827.8	616.5	211.3
Other subsidies and payments	237.4	85.0	152.4
Transfer payments	67.5	5.8	61.7
Utilities, materials and supplies	248.2	189.1	59.1
Acquisition of machinery and equipment	522.8	474.4	48.4
Transportation and communications	155.5	107.7	47.8
Rentals	135.7	128.2	7.5
Acquisition of land, buildings and works	66.7	59.6	7.1
Information	5.8	5.4	0.4
Public debt charges	0.8	0.8	0
Repair and maintenance	231.8	237.2	(5.4)
Personnel	2,618.7	2,619.1	(0.4)
Revenues netted against expenditures	(38.6)	(47.7)	9.1
Total net budgetary expenditures	5,080.1	4,481.1	599.0

The **year-to-date net increase in budgetary expenditures of \$599.0 million** can be mainly explained by the variances detailed below.

- **Professional and special services (increase of \$211.3 million)**

The increase in spending is primarily due to an increase in engineering and project management as projects are closer to implementation, and milestone payments. Delays in global supply chain and effects of inflation have significantly increased costs.

- **Other subsidies and payments (increase of \$152.4 million)**

The increase in expenditures is primarily due to a significant payment made to claimants of a settlement agreement. This was offset by a decrease of timing of payments in lieu of taxes.

- **Transfer payments (increase of \$61.7 million)**

The increase in spending is primarily due to contributions to Ukraine, as well as the timing of expenditures such as the implementation of milestone payments, increased cost due to COVID-19 challenges, and calls for contributions from earlier this year.

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- **Utilities, materials and supplies (increase of \$59.1 million)**

The increase in spending is primarily due to reduced federal and provincial COVID-19 restrictions. The result was increases in fuel requirements due to increased numbers of flights, operating and maintenance (O&M), utility costs due to increased access to buildings, and general supply and food usage as military operations and training resumed. Increases can also be explained by the significant increase in fuel prices from last year, as well as increased medical expenditures such as supplies for expeditions to Ukraine, non-core vaccines and surgeon-general-authorized projects for CAF personnel deployed on operations, and a rise in Blue Cross dental service supplies.

- **Acquisition of machinery and equipment (increase of \$48.4 million)**

The increase in spending is primarily due to the timing of milestone payments and higher volume of deliveries this year for various major projects.

- **Transportation and communications (increase of \$47.8 million)**

The increase in expenditures is primarily due to the resumption of domestic and international travel, and governance activities due to the lifting of COVID-19 restrictions. There was also an increase in move-related service costs attributed to COVID-19 and disruptions in the supply chain. Freight costs increased based on location and distance of training audiences for major training events that change year to year. An increase in surge is happening in Operation REASSURANCE due to the situation in Ukraine impacting freight costs and deployed personnel.

3. Risks and uncertainties

Following a successful vaccination campaign, a decrease of case counts, hospitalization and deaths, the pandemic is not over yet and there is still the possibility of future resurgence of cases or a new variant of concern. As such, vaccination continues to be one of the most effective tools to protect Canadians, the health care system, and the economy. The government is closely monitoring domestic and international scientific evidence to assess the need for additional public health measures, including the possible reintroduction of vaccination mandates. In the meanwhile, the Canadian Armed Forces is currently assessing the need for an amendment to the *Chief of the Defence Staff (CDS) Directive on COVID-19 Vaccination* as the intent of the department is to continue to maintain a safe working environment while remaining ready to conduct CAF operations in support of Canadians at home and around the world. In addition to the risks associated with COVID-19, the other risks discussed below are still relevant.

The department's financial transactions are exposed to a broad range of external financial and economic risks such as inflation, foreign exchange commodity price fluctuations and global supply chain. Currently we are seeing economic risks affecting increases to costs of goods and services, labour shortages, and supply chain delays. Depending on how these risks unfold, they could lead to higher- or lower-than-anticipated spending.

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The department continues to address the financial risks associated with the Phoenix pay issues through the implementation of new controls and the strengthening of existing ones. As part of the department's Phoenix risk mitigation efforts, several initiatives have been implemented such as the creation of data integrity and training working groups to improve payment accuracy and to identify training needs across the department.

While the department considers key economic and financial risk factors (including defence-specific inflation and foreign exchange) in developing expenditure strategies, these risks are outside of the control of the department.

The department's capital acquisition program includes a number of large multi-year acquisition projects. Delays in contracting and procurement activities or delays in deliveries by suppliers for individual projects can lead to reduced expenditures or budgetary surpluses.

Risks also flow from claims and litigations involving the department's normal operations. When the department receives a claim or litigation alleging liability in tort or extra contractual responsibility to cover losses, expenditures or damages, it is analyzed and an appropriate position is developed, based on legal advice. Litigation or settlement may be pursued and they are tracked through the department's reporting.

Additionally, significant unforecasted operational demands can occur at any time, requiring the department to respond anywhere on the globe. Depending on the extent of the operational demand, the cost of unforecasted operations would be mitigated either through internal reallocations or by requesting incremental funding from the government.

4. Significant changes in relation to programs, operations and personnel

The Defence Team continues with increased contributions in support of Ukraine.

In an environment impacted by a global pandemic, the department continues to implement its various SSE initiatives such as the renewal of its major equipment fleets including fighter aircraft and maritime warships.

Approved by:

// Original signed by //

Bill Matthews
Deputy Minister of National Defence

// Original signed by //

Cheri Crosby, CPA, CMA
Chief Financial Officer

Dated: August 26, 2022

Ottawa, Canada

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Table 1: Statement of authorities (unaudited) for the quarter ended June 30, 2022

	Fiscal year 2022–23			Fiscal year 2021–22		
	Total available for use for the year ending	Used during the quarter ended	Year-to-date used at quarter-end	Total available for use for the year ended	Used during the quarter ended	Year-to-date used at quarter-end
	Mar 31, 2023*	Jun 30, 2022	Jun 30, 2022	Mar 31, 2022*	Jun 30, 2021	Jun 30, 2021
Amounts are expressed in thousands of dollars.						
Vote 1 : Net operating expenditures	17,574,151	3,806,891	3,806,891	16,449,558	3,461,185	3,461,185
Vote 5 : Capital expenditures	5,956,537	789,646	789,646	5,695,651	603,868	603,868
Vote 10 : Grants and contributions	814,401	67,361	67,361	247,182	5,995	5,995
Vote 15 : Payments in respect of the long-term disability and life Insurance plan for members of the Canadian Forces	446,727	71,481	71,481	423,388	72,451	72,451
Budgetary statutory authorities:						
Contributions to employee benefit plans: Military members	1,321,784	260,664	260,664	1,160,201	257,821	257,821
Contributions to employee benefit plans	336,665	83,949	83,949	317,406	79,377	79,377
Spending of amounts equivalent to proceeds from disposal of surplus Crown assets	21,109	0	0	4,872	221	221
Payments under the <i>Supplementary Retirement Benefits Act</i>	800	98	98	1,400	109	109
Payments under Parts I to IV of the <i>Defence Services Pension Continuation Act</i> (R.S.C., 1970, c. D-3)	200	21	21	300	23	23
Minister and Associate Minister of National Defence: Salary and motor car allowance	93	23	23	91	23	23
Payments to dependants of certain members of the Royal Canadian Air Force killed while serving as instructors under the <i>British Commonwealth Air Training Plan</i> (Appropriation Act No. 4, 1968)	0	0	0	28	7	7
Total budgetary statutory authorities	1,680,651	344,756	344,756	1,484,298	337,581	337,581
Total budgetary authorities	26,472,467	5,080,467	5,080,467	24,300,077	4,481,080	4,481,080
Non-budgetary authorities	73,226	36,360	36,360	71,978	22,854	22,854
Total authorities	26,545,693	5,116,495	5,116,495	24,372,055	4,503,934	4,503,934

*Includes only authorities available for use and granted by Parliament at quarter-end.

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Table 2: Departmental budgetary expenditures by standard object (unaudited) for the quarter ended June 30, 2022

Amounts are expressed in thousands of dollars. Expenditures:	Fiscal year 2022–23			Fiscal year 2021–22		
	Planned expenditures for the year ending	Expended during the quarter ended	Year-to-date used at quarter-end	Planned expenditures for the year ending	Expended during the quarter ended	Year-to-date used at quarter-end
	Mar 31, 2023	Jun 30, 2022	Jun 30, 2022	Mar 31, 2022	Jun 30, 2021	Jun 30, 2021
Personnel	11,130,257	2,618,713	2,618,713	10,455,675	2,619,070	2,619,070
Transportation and communications	797,902	155,519	155,519	863,008	107,676	107,676
Information	24,353	5,824	5,824	20,989	5,366	5,366
Professional and special services	4,674,421	827,813	827,813	4,414,586	616,498	616,498
Rentals	679,056	135,670	135,670	595,409	128,171	128,171
Repair and maintenance	1,877,268	231,827	231,827	1,699,978	237,242	237,242
Utilities, materials and supplies	1,229,600	248,203	248,203	1,201,057	189,097	189,097
Acquisition of land, buildings and works	671,818	66,705	66,705	644,319	59,622	59,622
Acquisition of machinery and equipment	4,639,714	522,770	522,770	4,210,889	474,352	474,352
Transfer payments	815,401	67,480	67,480	248,910	5,834	5,834
Public debt charges	5,934	805	805	8,838	823	823
Other subsidies and payments	288,017	237,356	237,356	267,884	84,992	84,992
Total gross budgetary expenditures	26,833,741	5,118,686	5,118,686	24,631,542	4,528,743	4,528,743
Less revenues netted against expenditures:						
Recoveries from members	(163,428)	(30,049)	(30,049)	(167,951)	(26,136)	(26,136)
Recoveries from other government departments	(12,333)	(1,278)	(1,278)	(11,943)	(1,142)	(1,142)
Recoveries from other governments/UN/NATO	(98,194)	(1,460)	(1,460)	(120,225)	(13,866)	(13,866)
Other recoveries	(87,319)	(5,764)	(5,764)	(31,346)	(6,519)	(6,519)
Total revenues netted against expenditures	(361,274)	(38,551)	(38,551)	(331,465)	(47,663)	(47,663)
Total net budgetary expenditures	26,472,467	5,080,135	5,080,135	24,300,077	4,481,080	4,481,080