

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

National Defence

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Quarterly Financial Report for the Quarter Ended September 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 (CAF) 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 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)*. This quarterly report has been prepared using a special-purpose financial reporting 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 September 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 \$1,867.5 million. As reflected in Table 1: Statement of authorities, the total budgetary authorities increased from \$25,128.3 million in 2021–22 to \$26,995.8 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 (Vote 1)	Capital (Vote 5)	Grants and contributions (Vote 10)	Payments in respect of the long-term disability and life insurance plan for members of the Canadian Forces (Vote 15)	Budgetary statutory authorities	Total variances
Contributions to the Ukraine Operation	-	-	500.0	-	-	500.0
Pay administration – Federal public servants and Canadian Armed Forces	351.0	-	-	-	134.7	485.7
Operation and sustainment (fleet maintenance) of military capabilities and operating requirements	429.0	-	-	-	-	429.0
Heyder-Beattie Class Action	338.0	-	-	-	3.0	341.0
Budget 2021 Initiatives	165.4	32.5	65.9	-	3.6	267.4
Implementation of SSE	98.5	(1.3)	(0.2)	-	13.7	110.7
Major capital equipment and infrastructure projects	(94.1)	178.9	-	-	8.5	93.3
Service Income Security Insurance Plan (SISIP)	-	-	-	23.3	-	23.3
Travel Reduction	(82.2)	-	-	-	-	(82.2)
Miscellaneous departmental requirements	(382.0)	50.8	1.5	-	29.0	(300.7)
Cumulative variance in authorities available for use	823.6	260.9	567.2	23.3	192.5	1,867.5

*A positive variance indicates an increase in authorities available for use in Q2 2022–23 compared to Q2 2021–22 and a negative variance indicates a decrease in authorities available for use in Q2 2022–23 compared to Q2 2021–22.

Note: Numbers may not add up due to rounding.

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The **year-to-date net increase in authorities of \$1,867.5 million** over the second quarter in 2022–23 can be explained by variances in funding for a number of initiatives.

- **Contributions to the Ukraine Operation (increase of \$500 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 Final Settlement Agreement (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, the administration of claims, and the implementation of 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 (decrease of \$300.7 million)**

The net decrease is due to miscellaneous funding variances. More specifically, the decrease in operating authorities is largely related to the Operating Budget Carry Forward and only receiving approximately 60% of the requested allocation for 2022-23 at Q2, whereas in 2021-22 the full allocation was received. The remaining carry forward allocation for 2022-23 is expected to be received at Q3.

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

A permanent ongoing reduction for travel as announced in Budget 2021.

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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 \$830.5 million. As reflected in Table 2: Departmental budgetary expenditures by standard object, the expenditures increased from \$10,247 million in 2021–22 to \$11,077.5 million in 2022–23.

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
Transfer payments	363.8	31.9	331.9
Professional, special & other services	1,887.70	1,682.60	205.1
Other subsidies and payments	428.7	318.9	109.8
Transportation and communications	404.3	301.9	102.4
Utilities, materials and supplies	475.3	411.6	63.7
Rentals	291.8	258.7	33.1
Repair and maintenance	642.5	614.0	28.5
Acquisition of land, buildings and works	183.3	215.9	(32.6)
Other net minor items	6,400.1	6,411.5	(11.4)
Total net budgetary expenditures	11,077.5	10,247.0	830.5

Note: Numbers may not add up due to rounding.

Year-to-date **net increase of \$830.5 million** is attributable mainly to the following:

Transfer payment (increase of 331.9 million)

The increase in spending is primarily due to contributions to Ukraine. A small portion of this increase was spent on researching how to better prepare for future potential pandemics.

Professional, special & other services (increase of \$205.1 million)

The increase in spending is primarily due to an increase in engineering and project management costs as projects move closer to implementation, and an increase in milestone payments this FY. Overall, due to delays in global supply chain and effects of inflation, costs have significantly increased. In addition, there has been an increase in general external healthcare services claims.

Other subsidies and payments (increase of \$109.8 million)

The net increase in expenditures is primarily due to a significant payment made to claimants of settlement agreements.

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Transportation and communications (increase of \$102.4 million)

The increase in expenditures is primarily due to the resumption of domestic and international travel, and governance activities due to lifting of COVID-19 restrictions. As well, an increase in move related service costs was observed due to factors such as an increase of 19% for United Van Lines contracts, a higher number of house hunting trips, and timing variances for travel payments. Increased expenditures in operations and support of the wideband global satellite communications also heightened expenditures. Freight costs increased based on further distances traveled for training exercises compared to last year. Due to distance between troop home location and exercise location this year, re-deployment of vehicles post-exercise also incurred higher costs. A surge in Op REASSURANCE activities due to the situation in Ukraine made for higher freight costs and deployed personnel costs.

Utilities, materials and supplies (increase of \$63.7 million)

The increase in spending is primarily due to reduced Federal and Provincial COVID-19 restrictions. This resulted in increases in fuel requirements due to increased flying hours. There has also been a significant increase in fuel prices compared to last year. As military operations and training resume, general supply and food usage have also increased. These increases have been partially offset by a decrease in deliverables in capital projects and in the non-operational clothing and footwear contract.

Rentals (increase of \$33.1 million)

The increase in spending is primarily due to resumption of activities that were reduced due to COVID-19, such as rentals of aircrafts, ships, machinery, and accommodations on training exercises and global operations. Higher expenditures are also due to timing differences on lease and rent payments and software maintenance licenses from Microsoft, an increase in the hourly rate and ferry rate along with greater distances aircraft need to be ferried, as well as costs related to training exercises (Ex MAPLE RESOLVE, Readiness Level 5 and Exercise Rim of the Pacific).

Repair and maintenance (increase of \$28.5 million)

The increase in spending is primarily due to the work cycle timing difference for repairs and maintenance, increases in purchases of military equipment and repairs from the US, and a higher US dollar exchange rate partially offset by lower expenditures due to labor shortages for contractors and projects nearing completion.

Acquisition of land, buildings and works (decrease of \$32.6 million)

The decrease in spending is primarily due to timing differences on various construction projects such as Airfield Pavement rehab runway and Royal Canadian Dragoons CFB Petawawa infrastructure. Completion of the Arctic Jetty in Esquimalt last year and lower expenditures for the Canadian Special Operations Regiment (CSOR) infrastructure also reduced spending. These decreases were partially offset by an increase A/B Jetty recapitalization and Construction and Renovation of ADM(DRDC)'s infrastructure.

3. Risks and uncertainties

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 give rise to increases in costs of goods and services, labour shortages, and supply chain delays. Depending on how these risks unfold, they could lead to significant fluctuations from anticipated spending.

The department continues to address the financial risks associated with Phoenix pay issues through the implementation of new controls and the strengthening of existing ones. The Civilian Quality Assurance program modified its sampling program and leveraged the use of robotic process automation to provide a better analysis of the current pay environment and lead to timelier corrective actions with the help of compensation advisors. Initiatives like the centralized data entry capability, the data integrity working group and the training working group continue to ensure sustained payment accuracy and iterative training.

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.

The pandemic has exacerbated the problems for the CAF to grow its Force, in addition to existing personnel issues and changing demographics. As a result, the CAF is applying reconstitution measures at the tactical, operational, and strategic levels to restore units to an acceptable level of readiness to excel as a modern and combat-ready military force. This is intended to enable the CAF to adapt quickly to action when called for significant unexpected operational demands, which can occur at any time anywhere on the globe.

As Canada is moving towards adapting to a post-pandemic landscape, the Government of Canada suspended its mandatory COVID-19 vaccination policy for federal public servants in June 2022. The Canadian Armed Forces amended the CAF directives on COVID-19 mandatory vaccination effective October 14, 2022. Vaccine requirements will be driven by operational necessity to maintain domestic and international operational viability, which is essential to the protection of Canadians and defence of Canada. In addition, the department is in the process of transitioning to a hybrid workforce, aligned with current Treasury Board of Canada Secretariat (TBS) direction.

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

Since February 2022, Canada has committed \$626 million of military support to Ukraine, which includes procurement of military equipment, artillery, combat support vehicles, satellite communication services, uniforms/gear, and training for Ukrainian troops.

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

Approved by:

Bill Matthews
Deputy Minister of National Defence

Cheri Crosby, CPA, CMA
Chief Financial Officer

Dated: _____

Ottawa, Canada

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

Amounts are expressed in thousands of dollars.	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*	Sept 30, 2022	Sept 30, 2022	Mar 31, 2022*	Sept 30, 2021	Sept 30, 2021
Vote 1 : Net operating expenditures	18,097,979	4,259,890	8,066,782	17,271,367	4,177,163	7,638,348
Vote 5 : Capital expenditures	5,956,536	906,361	1,696,008	5,695,651	1,016,649	1,620,517
Vote 10 : Grants and contributions	814,401	296,530	363,891	247,182	25,881	31,876
Vote 15 : Payments in respect of the long-term disability and life Insurance plan for members of the Canadian Forces	446,728	106,977	178,448	423,388	108,187	180,638
Budgetary statutory authorities:						
Contributions to employee benefit plans: Military members	1,321,784	337,294	597,958	1,160,201	308,137	565,958
Contributions to employee benefit plans	336,665	83,941	178,488	317,406	79,381	158,758
Spending of amounts equivalent to proceeds from disposal of surplus Crown assets	23,582	972	972	11,284	202	423
Payments under the <i>Supplementary Retirement Benefits Act</i>	800	91	190	1,400	159	268
Court awards under the <i>Crown Liability and Proceedings Act</i>	0	5,000	5,000	0	50,000	50,000
Payments under Parts I to IV of the <i>Defence Services Pension Continuation Act</i> (R.S.C., 1970, c. D-3)	200	12	33	300	35	58
Minister and Associate Minister of National Defence: Salary and motor car allowance	93	23	46	91	22	45
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	2	9
Total budgetary statutory authorities	1,683,124	427,333	772,089	1,490,710	437,938	775,519
Total net budgetary authorities	26,995,768	5,997,092	11,077,227	25,128,298	5,765,818	10,246,898
Non-budgetary authorities	73,226	521	36,880	71,978	11,110	33,964
Total authorities	27,068,994	5,997,613	11,114,107	25,200,276	5,776,928	10,280,862

*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 September 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	Sept 30, 2022	Sept 30, 2022	Mar 31, 2022	Sept 30, 2021	Sept 30, 2021
Personnel	11,203,965	2,762,241	5,380,954	10,455,675	2,750,754	5,369,824
Transportation and communications	836,481	248,747	404,265	945,842	194,198	301,874
Information	25,564	2,553	8,377	23,054	2,565	7,931
Professional and special services	4,838,043	1,059,873	1,887,686	4,702,571	1,066,064	1,682,562
Rentals	709,546	156,088	291,758	647,407	130,488	258,659
Repair and maintenance	1,968,567	410,626	642,453	1,864,323	376,797	614,039
Utilities, materials and supplies	1,285,651	227,104	475,306	1,315,725	222,482	411,579
Acquisition of land, buildings and works	671,818	116,549	183,254	644,319	156,622	215,879
Acquisition of machinery and equipment	4,693,485	604,773	1,127,544	4,308,104	671,400	1,145,752
Transfer payments	815,401	296,333	363,814	248,910	26,077	31,911
Public debt charges	6,229	666	1,471	9,707	660	1,483
Other subsidies and payments	302,292	191,381	428,737	294,126	233,899	318,891
Total gross budgetary expenditures	27,357,042	6,076,933	11,195,619	22,459,763	5,831,641	10,360,384
Less revenues netted against expenditures:						
Recoveries from members	(163,428)	(41,465)	(71,513)	(167,951)	(36,671)	(62,807)
Recoveries from other government departments	(12,333)	(1,988)	(3,267)	(11,943)	(2,516)	(3,658)
Recoveries from other governments/UN/NATO	(98,194)	(19,300)	(20,760)	(120,225)	(20,242)	(34,108)
Other recoveries	(87,319)	(17,089)	(22,852)	(31,346)	(6,394)	(12,913)
Total revenues netted against expenditures	(361,274)	(79,841)	(118,392)	(331,465)	(65,823)	(113,486)
Total net budgetary expenditures	26,995,768	5,997,092	11,077,227	25,128,298	5,765,818	10,246,898