

**Quarterly Financial Report (QFR)
for the Quarter ended December 31,
2022**

National Defence

ISSN 2816-8232

This document is available on the Government of Canada website at www.canada.ca.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 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, Supplementary Estimates \(A\), 2022–23](#) and [Supplementary Estimates \(B\), 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 *Main Estimates, Supplementary Estimates (A)* and *Supplementary Estimates (B)* for the 2022-2023 fiscal year. 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.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

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 December 31, 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 \$1,594.9 million. As reflected in Table 1: Statement of authorities, the total budgetary authorities increased from \$25,933.0 million in 2021–22 to \$27,527.9 million in 2022–23. Major reasons for the changes are outlined below.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

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	(250.0)	-	750.0	-	-	500.0
Operation and sustainment (fleet maintenance) of military capabilities and operating requirements	429.0	-	-	-	-	429.0
Heyder-Beattie Class Action	295.0	(2.5)	-	-	2.4	294.9
Budget 2021 Initiatives	165.4	32.5	2.0	-	3.6	203.5
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
Pay administration – Federal public servants and Canadian Armed Forces	25.7	-	-	-	10.1	35.8
Service Income Security Insurance Plan (SISIP)	-	-	-	23.3	-	23.3
Miscellaneous departmental requirements	(96.0)	53.1	1.5	-	28.0	(13.4)
Travel Reduction	(82.2)	-	-	-	-	(82.2)
Cumulative variance in authorities available for use	491.3	260.7	753.3	23.3	66.3	1,594.9

*A positive variance indicates an increase in authorities available for use in Q3 2022–23 compared to Q3 2021–22 and a negative variance indicates a decrease in authorities available for use in Q3 2022–23 compared to Q3 2021–22.

Note: Numbers may not add up due to rounding.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

The **year-to-date net increase in authorities of \$1,594.9 million** over the third 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 funding received 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. Furthermore, in Supplementary Estimates (B) 2022-23, the department internally reallocated \$250 million from Vote 1 to Vote 10 to provide additional military aid to Ukraine.

- **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 \$294.9 million)**

The Heyder-Beattie class action sought damages related to gender-based discrimination, sexual assault and sexual harassment. The increase in funding accounts for the additional claims that were submitted to allow the Department to fulfil its obligations and payments under the final agreement.

- **Budget 2021 Initiatives (increase of \$203.5 million)**

Funding for initiatives 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

- **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.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

- **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 related 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.

- **Pay administration – Federal public servants and Canadian Armed Forces (increase of \$35.8 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.

- **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 \$13.4 million)**

The net decrease is due to miscellaneous funding variances. The decrease in Operating is partially 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. Lastly, 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.

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

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

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

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 \$1,273.4 million. As reflected in Table 2: Departmental budgetary expenditures by standard object, the expenditures increased from \$16,069.6 million in 2021–22 to \$17,342.9 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	653.6	140.8	512.7
Professional and special services	3,186.0	2,793.1	392.9
Other subsidies and payments	572.2	396.4	175.8
Transportation and communications	549.8	415.5	134.3
Utilities, materials and supplies	785.1	651.8	133.3
Personnel	8,067.2	8,014.9	52.3
Rentals	445.5	395.9	49.6
Other net minor items	1,070.8	1,065.8	5.0
Acquisition of machinery and equipment	1,899.1	1,985.7	(86.7)
Acquisition of land, buildings and works	317.3	375.2	(57.9)
Revenues netted against expenditures	(203.6)	(165.6)	(38.0)
Total net budgetary expenditures	17,342.9	16,069.6	1,273.4

Note: Numbers may not add up due to rounding.

Year-to-date **net increase of \$1,273.4 million** is attributable mainly to the following:

Transfer payment (increase of \$512.7 million)

The increase in spending is primarily due to contributions to Ukraine. A small portion of this increase was spent on researching how to be better prepared in future potential pandemics, timing differences on foreign exchange gains/losses, and 22 Wing North Bay PFAS (Poly and Perfluoroalkyl substances) monitoring.

Professional and special services (increase of \$392.9 million)

The increase in spending is primarily due to an increase in engineering-related costs and timing differences for capital projects. In addition, the industry has ramped up its workforces and costs will continue to increase until a steady state is reached. Additionally, the variance is coming from a larger annual payment for the Joint Strike Fighter that took place this fiscal year.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

Other subsidies and payments (increase of \$175.8 million)

The increase in expenditures is primarily due to a significant payment made to claimants of settlement agreements. This increase was partially offset by a decrease in the timing of scheduled payments for settlement agreements.

Transportation and communications (increase of \$134.3 million)

The increase in expenditures is primarily due to the resumption of domestic and international travel, governance activities, and military training due to lifting of COVID-19 restrictions. As well, an increase in move related service costs was observed due to factors such as a higher number of house hunting trips and resumption of moves of some military members. In addition, expenditures in operations and freight/shipping costs have increased based on location and distance. Furthermore, due to inflation, the cost of air travel, living, and gas has increased.

Utilities, materials and supplies (increase of \$133.3 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 and utility prices compared to last year. As military operations and training have resumed, there has been an increase in general supplies and food usage.

Personnel (increase of \$52.3 million)

The increase in spending is primarily due to the increase in the employer's CPP (Canada Pension Plan) and EI (Employment Insurance) contributions. In addition, there have been increases in some allowances, such as pay raises for senior officers.

Rentals (increase of \$49.6 million)

The increase in spending is primarily due to the resumption of activities and training exercises that had been reduced due to COVID-19. The lifting of COVID-19 restrictions led to an increase in TD (temporary duty) travel both domestic and international, which resulted in higher costs in accommodation, car, and aircraft rentals. In addition, the current geopolitical situation in Europe (Russia/Ukraine) has resulted in increased requirements for accommodation rentals for deployed personnel. The increase can be also explained by various timing differences in license and maintenance fees for IT (Information Technology) security software, capital projects rental payments, and accommodations and lease charges.

Acquisition of machinery and equipment (decrease of \$86.7 million)

The decrease in spending was primarily due to efficiencies realized during the construction of ships. In addition, project milestone differences and FMS (Foreign Military Sales) case payments for Hornet Extension project and Maritime Helicopter project explains the decrease in expenditures. A production schedule change in vehicle deliveries to accommodate Canada's priority of donating vehicles to Ukraine has also contributed to the decrease.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

Acquisition of land, buildings and works (decrease of \$57.9 million)

The decrease in spending is primarily due to timing differences on several construction projects such as Airfield Pavement rehab runway and Royal Canadian Dragoons CFB Petawawa. There was a decrease in expenditures for the Canadian Special Operations Regiment (CSOR) infrastructure and work on infrastructure Artic Jetty in Esquimalt completed last FY.

Revenues netted against expenditures (increase of \$38.0 million)

The increase in spending is primarily due to a timing difference as the system now charges quarterly instead of annually. In addition, an increase in international flying led to an increase in sales of POL (petroleum, oil and lubricants) to foreign military under the fuel exchange agreement due to COVID-19 restrictions being lifted.

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 in anticipated spending.

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 the control of the department.

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.

The department's capital acquisition program includes a number of large multi-year acquisition projects, mainly comprising of advanced fighter aircrafts, naval ships and armored vehicles. 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 problem 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.

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

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 on 14 October 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 continues its transition to a hybrid workforce, further reinforced by the recent Treasury Board of Canada Secretariat (TBS) direction.

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

Of note, the Department has restructured its organization by reallocating human resources to create the Digital Transformation Office and its Chief Information Office.

Since February 2022, Canada has committed \$1 billion 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.

Furthermore, the CAF has reallocated their current forces to continue to support Ukraine, maintain its NATO commitments, increase its presence in the Indo-Pacific, and reduce its presence in the Middle East. These movements will incur additional impacts on transportation, relocation, and overall military salary expenditures.

To address the shortfall and increase the recruitment pool of military personnel, the federal government announced policy changes in December 2022 that will allow permanent residents to join the CAF.

Approved by:

Bill Matthews
Deputy Minister of National Defence

Cheri Crosby, CPA, CMA
Chief Financial Officer

Dated: _____

Ottawa, Canada

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

Table 1: Statement of authorities (unaudited) for the quarter ended December 31, 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*	Dec 31, 2022	Dec 31, 2022	Mar 31, 2022*	Dec 31, 2021	Dec 31, 2021
Vote 1 : Net operating expenditures	18,370,042	4,346,819	12,413,601	17,878,790	4,107,086	11,745,434
Vote 5 : Capital expenditures	5,958,765	1,136,365	2,832,373	5,698,113	1,185,674	2,806,191
Vote 10 : Grants and contributions	1,064,401	289,576	653,467	311,082	108,729	140,605
Vote 15 : Payments in respect of the long-term disability and life Insurance plan for members of the Canadian Forces	446,728	105,974	284,432	423,389	107,913	288,551
Budgetary statutory authorities:						
Contributions to employee benefit plans: Military members	1,321,784	302,342	900,299	1,284,746	283,455	849,413
Contributions to employee benefit plans	336,665	83,950	251,840	317,987	79,383	238,141
Spending of amounts equivalent to proceeds from disposal of surplus Crown assets	28,370	474	1,446	17,066	219	642
Payments under the <i>Supplementary Retirement Benefits Act</i>	800	148	338	1,400	155	423
Court awards under the <i>Crown Liability and Proceedings Act</i>	0	0	5,000	0	(50,000)	0
Payments under Parts I to IV of the <i>Defence Services Pension Continuation Act</i> (R.S.C. 1970, c. D-3)	200	32	65	300	33	91
Minister and Associate Minister of National Defence: Salary and motor car allowance	93	23	69	91	23	68
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	0	9
Total budgetary statutory authorities	1,687,912	386,969	1,159,057	1,621,618	313,268	1,088,787
Total net budgetary authorities	27,527,848	6,265,703	17,342,930	25,932,992	5,822,670	16,069,568
Non-budgetary authorities	73,226	(785)	36,095	71,978	(4,038)	29,926
Total authorities	27,601,074	6,264,918	17,379,025	26,004,970	5,818,632	16,099,494

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

National Defence

Quarterly Financial Report for the Quarter ended December 31, 2022

Table 2: Departmental budgetary expenditures by standard object (unaudited) for the quarter ended December 31, 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	Dec 31, 2022	Dec 31, 2022	Mar 31, 2022	Dec 31, 2021	Dec 31, 2021
Personnel	11,239,012	2,686,234	8,067,188	10,941,795	2,645,097	8,014,921
Transportation and communications	861,861	145,547	549,812	945,842	113,602	415,476
Information	26,372	5,437	13,814	23,053	5,514	13,445
Professional and special services	4,897,049	1,298,295	3,185,981	4,715,274	1,110,511	2,793,073
Rentals	729,852	153,715	445,473	647,406	137,254	395,913
Repair and maintenance	2,029,765	412,496	1,054,949	1,864,323	436,218	1,050,258
Utilities, materials and supplies	1,323,178	309,751	785,058	1,319,847	240,181	651,760
Acquisition of land, buildings and works	671,818	134,015	317,269	644,320	159,313	375,191
Acquisition of machinery and equipment	4,726,578	771,515	1,899,059	4,308,104	839,984	1,985,736
Transfer payments	1,065,401	289,756	653,569	312,810	108,917	140,828
Public debt charges	6,426	605	2,076	9,707	646	2,129
Other subsidies and payments	311,809	143,501	572,238	531,976	77,545	396,436
Total gross budgetary expenditures	27,889,121	6,350,867	17,546,486	26,264,457	5,874,782	16,235,166
Less revenues netted against expenditures:						
Recoveries from members	(163,427)	(44,131)	(115,644)	(167,951)	(40,386)	(103,193)
Recoveries from other government departments	(12,333)	(5,149)	(8,416)	(11,943)	(3,766)	(7,424)
Recoveries from other governments/UN/NATO	(98,194)	(15,435)	(36,194)	(120,225)	(1,638)	(35,746)
Other recoveries	(87,319)	(20,449)	(43,302)	(31,346)	(6,322)	(19,235)
Total revenues netted against expenditures	(361,273)	(85,164)	(203,556)	(331,465)	(52,112)	(165,598)
Total net budgetary expenditures	27,527,848	6,265,703	17,342,930	25,932,992	5,822,670	16,069,568