

**Quarterly Financial Report (QFR)
for the Quarter ended June 30, 2023**

National Defence

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Quarterly Financial Report for the Quarter ended June 30, 2023

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 – 2023–24 Estimates](#) and [Supplementary Estimates \(A\), 2023–24](#). 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 2023–24](#).

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 and Supplementary Estimates (A)* for the 2023-2024 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.

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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, 2023, 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 \$32.9 million. As reflected in Table 1: Statement of authorities, the total budgetary authorities increased from \$26,472.5 million in 2022–23 to \$26,505.3 million in 2023–24. 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)	Budgetary statutory authorities	Total variances*
Operation and sustainment (fleet maintenance) of military capabilities and operating requirements	490.9	-	-	-	490.9
Budget 2021 initiatives	72.6	58.6	-	(0.9)	130.3
Implementation of SSE	79.5	30.0	(2.5)	14.2	121.2
Miscellaneous departmental requirements	(32.7)	30.4	6.4	49.5	53.6
Budget 2022 initiatives	42.3	0.7	1.5	6.5	51.0
Heyder-Beattie Class Action	(314.0)	0.3	-	(0.4)	(314.1)
Ukraine Operation	-	-	(500.0)	-	(500.0)
Cumulative variance in authorities available for use	338.6	120.0	(494.6)	68.9	32.9

*A positive variance indicates an increase in authorities available for use in Q1 2023–24 compared to Q1 2022–23 and a negative variance indicates a decrease in authorities available for use in Q1 2023–24 compared to Q1 2022–23.

Note: Numbers may not add up due to rounding.

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The **year-to-date net increase in authorities of \$32.9 million** over the first quarter in 2023–24 can be explained by variances in funding for a number of initiatives.

- **Operation and sustainment (fleet maintenance) of military capabilities and operating requirements (increase of \$490.9 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.

- **Budget 2021 Initiatives (increase of \$130.3 million)**

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

- North American Aerospace Defense Command (NORAD) Modernization Initiative
- Funding to Support the North Warning System
- Modernizing the department's information management and information technology systems
- The North Atlantic Treaty Organization (NATO) Readiness Initiative and the NATO Contribution programs
- Sustaining health services for the CAF
- Addressing sexual misconduct and gender-based violence in the military

- **Implementation of SSE (increase of \$121.2 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 CAF and civilian support and for capital investments.

- **Miscellaneous departmental requirements (increase of \$53.6 million)**

The net increase is due to miscellaneous funding variances. The net increase in statutory authorities is mainly due to an increase in contributions to employee benefit plans for military and civilians.

- **Budget 2022 Initiatives (increase of \$51.0 million)**

Funding for initiatives that were announced in Budget 2022 pertaining to:

- Women and Diversity Healthcare
- Funding to support Culture Change in the CAF
- Military Justice Modernization
- Funding for the Implementation of the United Nations Declaration on the Rights of Indigenous Peoples Act

- **Heyder-Beattie Class Action Final Settlement Agreement (decrease of \$314.1 million)**

The Heyder and Beattie class actions sought damages related to gender-based discrimination, sexual assault and sexual harassment. The funding has been used to continue to fulfil obligations and payments under the final agreement, including compensating claimants, the administration of claims, and the implementation of the

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restorative engagement program. The decrease is largely related to the timing of expected payments to claimants.

- **Contributions to the Ukraine Operation (decrease of \$500 million)**

The decrease is due to the timing of funding requirements. In 2022-23, funding to support Ukraine in its efforts to defend its sovereignty was received in the first quarter of 2022-23. It is anticipated that funding will be requested later in the 2023-24 fiscal year.

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 decreased by \$269.2 million. As reflected in Table 2: Departmental budgetary expenditures by standard object, the expenditures decreased from \$5,080.1 million in 2022–23 to \$4,810.9 million in 2023–24.

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

Standard object	2023–24 Year-to-date used at quarter end	2022–23 Year-to-date used at quarter end	Year-to-date variance
Personnel	2,767.0	2,618.7	148.3
Other net minor items	578.7	557.8	20.9
Other subsidies and payments	62.6	237.4	(174.8)
Professional and special services	715.4	827.8	(112.4)
Transfer payments	0.6	67.5	(66.9)
Utilities, materials and supplies	201.4	248.2	(46.8)
Acquisition of machinery and equipment	485.2	522.8	(37.5)
Total net budgetary expenditures	4,810.9	5,080.1	(269.2)

Note: Numbers may not add up due to rounding.

Year-to-date **net decrease of \$269.2 million** is attributable mainly to the following:

- **Personnel (increase of \$148.3 million)**

The increase in spending is primarily due to rate increases for employer CPP (Canada Pension Plan) and EI (Employment Insurance) contributions. In addition, there have been increases in some allowances due to more personnel being deployed during the first quarter of this fiscal year, as well as collective agreements/increases in pay scales for both civilian and CAF employees.

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- **Other subsidies and payments (decrease of \$174.8 million)**

The decrease in expenditures is primarily due to the timing of scheduled payments for settlement agreements.

- **Professional and special services (decrease of \$112.4 million)**

The decrease in spending is primarily due to the F-35 JSF (Joint Strike Fighter) Program MOU payment timing which has not yet occurred this fiscal year.

- **Transfer payment (decrease of \$66.9 million)**

The decrease in spending is primarily due to timing variances for the budget and expenditures related to Ukraine.

- **Utilities, materials and supplies (decrease of \$46.8 million)**

The decrease in spending is primarily due to lower fuel prices and reduced flying hours compared to the same quarter last year.

- **Acquisition of machinery and equipment (decrease of \$37.5 million)**

The decrease in spending was primarily due to project milestone differences, most significantly payment timing for Medium Support Vehicle System (MSVS).

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 as required and the strengthening of existing ones. The Civilian Quality Assurance program continues to leverage the use of robotic process automation to analyze the current pay environment and lead to more timely corrective actions with the help of compensation agents. Initiatives such as the centralized data entry capability continue to ensure sustained payment accuracy.

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.

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The COVID pandemic has exacerbated the CAF's ability to grow its Force. 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 around the globe.

Additionally, significant unforecasted operational demands can occur at any time, requiring the department to respond anywhere in the world. 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

Since February 2022, Canada has made significant contributions 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. A Temporary Recruitment Incentive has also been granted to unskilled members in 33 occupations, after successful completion of Basic Military Qualification.

On July 26, 2023, Prime Minister Justin Trudeau announced the appointment of Bill Blair as the new Minister of National Defence. In addition, the Honourable Ginette Petitpas Taylor was named as Minister of Veterans Affairs and Associate Minister of National Defence.

Approved by:

// Original signed by //

Bill Matthews
Deputy Minister of National Defence

// Original signed by //

Cheri Crosby, CPA, CMA
Chief Financial Officer

Dated: August 17, 2023

Ottawa, Canada

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Table 1: Statement of authorities (unaudited) for the quarter ended June 30, 2023

	Fiscal year 2023–24			Fiscal year 2022–23		
	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, 2024*	June 30, 2023	June 30, 2023	Mar 31, 2023*	June 30, 2022	June 30, 2022
Amounts are expressed in thousands of dollars.						
Vote 1: Net operating expenditures	17,912,762	3,787,277	3,787,277	17,574,151	3,806,891	3,806,891
Vote 5: Capital expenditures	6,076,583	593,253	593,253	5,956,537	789,646	789,646
Vote 10: Grants and contributions	319,809	950	950	814,401	67,361	67,361
Vote 15: Payments in respect of the long-term disability and life insurance plan for members of the Canadian Forces	446,727	52,685	52,685	446,727	71,481	71,481
Budgetary statutory authorities:						
Contributions to employee benefit plans: Military members	1,402,014	293,746	293,746	1,321,784	260,664	260,664
Contributions to employee benefit plans	330,464	82,645	82,645	336,665	83,949	83,949
Spending of amounts equivalent to proceeds from disposal of surplus Crown assets	16,205	-	-	21,109	-	-
Payments under the <i>Supplementary Retirement Benefits Act</i>	550	103	103	800	98	98
Court awards under the <i>Crown Liability and Proceedings Act</i>	-	188	188	-	-	-
Payments under Parts I to IV of the <i>Defence Services Pension Continuation Act</i> (R.S.C. 1970, c. D-3)	120	21	21	200	21	21
Minister and Associate Minister of National Defence: Salary and motor car allowance	95	24	24	93	23	23
Total budgetary statutory authorities	1,749,448	376,727	376,727	1,680,651	344,756	344,756
Total net budgetary authorities	26,505,329	4,810,891	4,810,891	26,472,467	5,080,135	5,080,135
Non-budgetary authorities	74,474	33,978	33,978	73,226	36,360	36,360
Total authorities	26,579,803	4,844,869	4,844,869	26,545,693	5,116,495	5,116,495

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

Note: Numbers may not add up due to rounding.

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Table 2: Departmental budgetary expenditures by standard object (unaudited) for the quarter ended June 30, 2023

Amounts are expressed in thousands of dollars. Expenditures:	Fiscal year 2023–24			Fiscal year 2022–23		
	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, 2024	June 30, 2023	June 30, 2023	Mar 31, 2023	June 30, 2022	June 30, 2022
Personnel	11,227,419	2,766,989	2,766,989	11,130,257	2,618,713	2,618,713
Transportation and communications	726,447	155,464	155,464	797,902	155,519	155,519
Information	26,837	4,281	4,281	24,353	5,824	5,824
Professional and special services	5,007,161	715,413	715,413	4,674,421	827,813	827,813
Rentals	670,343	149,240	149,240	679,056	135,670	135,670
Repair and maintenance	1,965,731	245,307	245,307	1,877,268	231,827	231,827
Utilities, materials and supplies	1,236,036	201,453	201,453	1,229,600	248,203	248,203
Acquisition of land, buildings and works	705,757	57,082	57,082	671,818	66,705	66,705
Acquisition of machinery and equipment	4,619,234	485,241	485,241	4,639,714	522,770	522,770
Transfer payments	320,479	550	550	815,401	67,480	67,480
Public debt charges	3,675	848	848	5,934	805	805
Other subsidies and payments	352,851	62,583	62,583	288,017	237,356	237,356
Total gross budgetary expenditures	26,861,970	4,844,451	4,844,451	26,833,741	5,118,686	5,118,686
Less revenues netted against expenditures:						
Recoveries from members	(168,688)	(25,559)	(25,559)	(163,428)	(30,049)	(30,049)
Recoveries from other government departments	(11,075)	(811)	(811)	(12,333)	(1,278)	(1,278)
Recoveries from other governments/UN/NATO	(93,659)	(819)	(819)	(98,194)	(1,460)	(1,460)
Other recoveries	(83,219)	(6,371)	(6,371)	(87,319)	(5,764)	(5,764)
Total revenues netted against expenditures	(356,641)	(33,560)	(33,560)	(361,274)	(38,551)	(38,551)
Total net budgetary expenditures	26,505,329	4,810,891	4,810,891	26,472,467	5,080,135	5,080,135

Note: Numbers may not add up due to rounding.