

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

National Defence

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Quarterly Financial Report for the Quarter ended September 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 September 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 \$308.3 million. As reflected in Table 1: Statement of authorities, the total budgetary authorities increased from \$26,995.8 million in 2022–23 to \$27,304.1 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	0	0	0	490.9
Miscellaneous departmental requirements	239.9	30.4	6.4	52.3	329.0
Budget 2021 initiatives	72.6	58.6	0	(0.9)	130.3
Implementation of SSE	79.5	30.0	(2.5)	14.2	121.2
Budget 2022 initiatives	42.3	0.7	1.5	6.5	51.0
Heyder-Beattie Class Action	(314.0)	0.3	0	(0.4)	(314.1)
Ukraine Operation	0	0	(500.0)	0	(500.0)
Cumulative variance in authorities available for use	611.2	120.0	(494.6)	71.7	308.3

*A positive variance indicates an increase in year-to-date cumulative authorities available for use in the six-month period ending 30 September, 2023 as compared to the same period in 2022–23. A negative variance indicates a decrease in year-to-date cumulative authorities available for use in the six-month period ending 30 September, 2023 as compared to the same period in 2022–23.

Note: Numbers may not add up due to rounding.

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The **year-to-date net increase in authorities of \$308.3 million** over the second quarter in 2022–23 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.

- **Miscellaneous departmental requirements (increase of \$329.0 million)**

The net increase is due to miscellaneous funding variances. More specifically, the net increase in operating authorities is largely due to the timing of the Operating Budget Carry Forward. In 2023-24, 100% of the operating budget carry forward request was received in the second quarter, whereas only approximately 60% of the carry forward request was received in the second quarter of 2022-23. The net increase in statutory authorities is mainly due to an increase in contributions to employee benefit plans for military and civilians related to negotiated pay increases.

- **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.

- **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

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continue to fulfil obligations and payments under the final agreement, including compensating claimants, the administration of claims, and the implementation of the restorative engagement program. The decrease is largely related to the timing of expected payments to claimants.

- **Contributions to the Ukraine Operation (decrease of \$500.0 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, whereas in 2023-24, funding is expected to be received in the third quarter.

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 \$344.9 million. As reflected in Table 2: Departmental budgetary expenditures by standard object, the expenditures increased from \$11,077.2 million in 2022–23 to \$11,422.1 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	5,834.3	5,381.0	453.4
Acquisition of machinery and equipment	1,422.5	1,127.5	295.0
Professional and special services	1,928.7	1,887.7	41.0
Repair and maintenance	681.6	642.5	39.2
Acquisition of land, buildings and works	214.8	183.2	31.6
Other net minor items	791.5	776.9	14.6
Other subsidies and payments	148.3	428.7	(280.5)
Transfer payments	134.1	363.8	(229.7)
Transportation and communications	362.5	404.3	(41.7)
Revenues netted against expenditures	(96.2)	(118.4)	22.2
Total net budgetary expenditures	11,422.1	11,077.2	344.9

Note: Numbers may not add up due to rounding.

Year-to-date **net increase of \$344.9 million** is attributable mainly to the following:

- **Personnel (increase of \$453.4 million)**

The increase in spending is primarily due to the general pay increase which impacted expenditures for retroactive pay, pension and tax payments, as well as some increases in full time summer employment and a surge in the Class B Military Reserve compared to previous fiscal year.

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- **Acquisition of machinery and equipment (increase of \$295.0 million)**

The increase in spending was mainly due to the acquisition of aircraft and the ramp up of production in shipbuilding. In addition, there is an increase in spending on ammunition related to the increased costs of fabrication, replenishment of stocks, and an overall increase in CAF requirements for ammunition.

- **Professional and special services (increase of \$41.0 million)**

The increase in spending is primarily due to a rise in operating and maintenance costs for the Blackjack Unmanned Aircraft System in-service support, as well as increased enrollment of students in both Euro-NATO joint jet pilot training program and International Flight Training School program, and inflationary impact on utility expenditures and tuition fees.

- **Repair and maintenance (increase of \$39.2 million)**

The increase in expenditures is primarily due to the timing of scheduled payments for various aircrafts as well as repairs and maintenance of other equipment.

- **Acquisition of land, buildings and works (increase of \$31.6 million)**

The increase in spending is primarily due to higher number of projects, many of which are in the implementation phase.

- **Other subsidies and payments (decrease of \$280.5 million)**

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

- **Transfer payments (decrease of \$229.7 million)**

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

- **Transportation and communications (decrease of \$41.7 million)**

The decrease in spending is primarily due to payment timing differences for the Mercury Global telecommunication data services project.

- **Revenues netted against expenditures (decrease of \$22.2 million)**

The decrease is primarily due to the timing difference of revenue recognition.

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

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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.

The COVID-19 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

The Canadian Forces Housing Differential came into effect on July 1, 2023. It is a taxable benefit that is intended to provide equitable assistance to offset basic accommodation costs. It replaces the Post Living Differential and the Transitional Post Living Differential, both of which had not been updated since 2008.

In September 2023, Prime Minister Justin Trudeau announced that Canada is making a multi-year commitment to provide steady support to Ukraine.

Approved by:

// Original signed by //

Bill Matthews
Deputy Minister of National Defence

// Original signed by //

Cheri Crosby, CPA, CMA
Chief Financial Officer

Dated: November 27, 2023

Ottawa, Canada

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

	Fiscal year 2023-2024			Fiscal year 2022-2023		
	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 ending	Used during the quarter ended	Year-to-date used at quarter-end
	Mar 31, 2024*	Sept 30, 2023	Sept 30, 2023	Mar 31, 2023*	Sept 30, 2022	Sept 30, 2022
Amounts are expressed in thousands of dollars						
Vote 1 - Net Operating expenditures	18,706,207	4,563,241	8,350,518	18,094,979	4,259,890	8,066,782
Vote 5 - Capital expenditures	6,076,583	1,271,873	1,865,126	5,956,536	906,361	1,696,008
Vote 10 - Grants and contributions	319,809	133,117	134,066	814,401	296,530	363,891
Vote 15 - Payments in respect of the long-term disability and life insurance plan for members of the Canadian Forces	446,728	117,057	169,741	446,728	106,977	178,458
Budgetary Statutory Authorities:						
Contributions to employee benefit plans - Members of the Military	1,402,014	435,532	729,279	1,321,784	337,294	597,958
Contributions to employee benefit plans	330,464	82,652	165,297	336,665	83,941	167,890
Spending of Amounts Equivalent to Proceeds from Disposal of Surplus Crown Assets	21,545	79	79	23,582	972	972
Payments under the <i>Supplementary Retirement Benefits Act</i>	550	155	259	800	91	190
Court awards - <i>Crown Liability and Proceedings Act</i>	0	7,439	7,627	0	5,000	5,000
Payments under Parts I-IV of the Defence Services Pension Continuation Act (R.S.C., 1970, c. D-3)	120	31	52	200	12	33
Minister and Associate Minister of National Defence - Salary and Motor Car Allowance	95	24	47	93	23	46
Total Budgetary statutory authorities	1,754,788	525,912	902,640	1,683,124	427,333	772,089
Total Budgetary Authorities	27,304,115	6,611,200	11,422,091	26,995,768	5,997,092	11,077,227
Non-budgetary Authorities	74,474	6,722	40,699	73,226	521	36,880
Total Authorities	27,378,589	6,617,922	11,462,790	27,068,994	5,997,613	11,114,107

*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 September 30, 2023

Amounts are expressed in thousands of dollars.	Fiscal year 2023-2024			Fiscal year 2022-2023		
	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	Sep 30, 2023	Sep 30, 2023	Mar 31, 2023	Sep 30, 2022	Sep 30, 2022
Expenditures:						
Personnel	11,600,708	3,067,325	5,834,315	11,203,965	2,762,241	5,380,954
Transportation and communications	758,029	207,077	362,541	836,481	248,747	404,265
Information	28,043	7,399	11,680	25,564	2,553	8,377
Professional and special services	5,166,425	1,213,239	1,928,651	4,838,043	1,059,873	1,887,686
Rentals	699,481	152,809	302,049	709,546	156,088	291,758
Repair and maintenance	2,052,122	436,332	681,640	1,968,567	410,626	642,453
Utilities, materials and supplies	1,289,383	274,918	476,371	1,285,651	227,104	475,306
Acquisition of land, buildings and works	705,757	157,736	214,818	671,818	116,549	183,254
Acquisition of machinery and equipment	4,667,794	937,300	1,422,541	4,693,485	604,773	1,127,544
Transfer payments	320,479	133,527	134,077	815,401	296,333	363,814
Public debt charges	3840	518	1,366	6,229	666	1,471
Other subsidies and payments	368,695	85,697	148,280	302,292	191,381	428,737
Total gross budgetary expenditures	27,660,756	6,673,877	11,518,329	27,357,042	6,076,933	11,195,619
Less Revenues netted against expenditures:						
Recoveries from Members	(168,688)	(38,570)	(64,129)	(163,428)	(41,465)	(71,513)
Recoveries from OGDs	(11,075)	(2,370)	(3,182)	(12,333)	(1,988)	(3,267)
Recoveries from Other Governments/UN/NA TO	(93,659)	(1,913)	(2,732)	(98,194)	(19,300)	(20,760)
Other Recoveries	(83,219)	(19,824)	(26,195)	(87,319)	(17,089)	(22,852)
Total Revenues netted against expenditures:	(356,641)	(62,677)	(96,238)	(361,274)	(79,841)	(118,392)
Total net budgetary expenditures	27,304,115	6,611,200	11,422,091	26,995,768	5,997,092	11,077,227

Note: Numbers may not add up due to rounding.