

Accounting of In-kind Contributions in European Research Infrastructure Consortia (ERICs) - The Case of the European Spallation Source ERIC

Ohad Graber-Soudry[‡], Florian Weissbach[§], Maja Jensen[§]

[‡] X-officio, Lund, Sweden

[§] European Spallation Source ERIC, Lund, Sweden

Corresponding author: Ohad Graber-Soudry (ohad.graber-soudry@xofficio.eu),
Florian Weissbach (florian.weissbach@ess.eu), Maja Jensen (maja.jensen@ess.eu)

Reviewable v 1

Received: 01 Jan 2025 | Published: 23 Jan 2025

Citation: Graber-Soudry O, Weissbach F, Jensen M (2025) Accounting of In-kind Contributions in European Research Infrastructure Consortia (ERICs) - The Case of the European Spallation Source ERIC. Research Ideas and Outcomes 11: e145727. <https://doi.org/10.3897/rio.11.e145727>

Abstract

The European Spallation Source ERIC relies on in-kind contributions from its Members, including technical components, R&D and services, which are vital to its construction and operation. The complex nature and delivery of in-kind contributions have posed significant accounting challenges. Following a comprehensive review in collaboration with external advisors, the European Spallation Source ERIC has adopted a harmonised approach that aligns the treatment of in-kind contributions with cash contributions, enhancing transparency towards stakeholders, compliance with accounting principles and the robustness of financial reporting. The experience of the European Spallation Source ERIC in addressing these complexities offers valuable insights for other ERICs and organisations with similar scopes, promoting effective and transparent management of in-kind contributions. This commentary aims to contribute to the broader understanding of managing in-kind contributions by sharing the European Spallation Source ERIC's experience and lessons learned.

Keywords

Research infrastructures, ERIC, In-kind contributions, Cost book, National contributions, ERIC Statutes, European Spallation Source ERIC, X-officio

Introduction

The European Spallation Source (“ESS”) is a European Research Infrastructure Consortium (“ERIC”)*¹ with 13 member states (“Members”) who contribute to the construction and operation of ESS both cash and in-kind, as outlined in the ESS ERIC Statutes.

An In-Kind Contribution (“IKC”) is a non-cash contribution made by a Member to ESS. Such contribution can encompass:

- Technical components, along with personnel for testing, installation and/or integration.
- R&D work and associated personnel.
- Any other products or services required for ESS's completion.

In practice, Members are not typically able to deliver scientific or technical components themselves, as they are usually governmental bodies or ministries. Therefore, the actual contribution generally comes from one of ESS's project partners established in the relevant Member's country. This partner is appointed by the Member to deliver the in-kind contribution on their behalf and usually receives funding from the Member for this purpose.

The in-kind delivery arrangement is formalised through an in-kind contract that is signed between ESS ERIC and the delivering party, but the Member is referred to in the agreement as well. Put simply, an in-kind arrangement involves three key parties:

- **The in-kind delivering partner (“IK Partner”)**: A research institution participating in the ESS project and is designated by the Member.
- **The Member**: Is the ESS ERIC Member country, represented by the relevant ministry or the funding agency, who provides the finance for the in-kind delivering party, ensuring the IK contribution's delivery to ESS.
- **ESS ERIC**: The entity benefiting from the in-kind contribution.

The ESS Cost Book provides definitions for suitable in-kind contributions and their corresponding financial values.

Each IKC, along with its value, is identified and itemised by ESS, based on the ESS project descriptions. The ESS Cost Book then quantifies the value of the IKC using ESS's estimations and labour rates. In instances where the cost values are not sufficiently detailed, a value is determined prior to finalising an agreement with the relevant IK

Partner. This valuation often relies on cost estimations and models and is determined following negotiations with the relevant IK Partner.

The ESS ERIC In-Kind Review Committee (“IKRC”), which reports to the ESS ERIC Council (the “Council”), has the mandate to review and assess in-kind contribution proposals, oversee their execution and make recommendations for the approval of the final delivery.*²

Based on recommendations from the IKRC, the Council approves the Technical Agreements (TAs) of each in-kind agreement (the TA includes specific information on each deliverable). Following delivery, the Council approves the in-kind contribution, ownership of the project results is transferred to ESS ERIC and the in-kind value is credited to the Member, counting towards its overall contribution to ESS as required by the ESS ERIC Statutes.

In-kind accounting practices

It is important to note that at ESS, in-kind contributions mainly consist of physical components for the machine and accelerator, which means that ownership of such physical items is physically transferred to ESS. Therefore, the Members' contributions, both in cash and in-kind, need to be recorded in ESS's books. In practice, and in line with Swedish accounting principles, which implement the EU Accounting Directive and IFRS, there is more than one way in which in-kind contributions may be regarded for ESS ERIC accounting purposes:

1. IKCs may be treated as government grants received with special conditions for their use. In this case, the in-kind contribution cannot be considered as a contribution made by a Member (equivalent to 'owner contribution' in a limited liability company). The contribution will then be accounted for as a grant against fixed asset (net grant against an asset) or it will be accounted for a grant as prepaid income and amortise of the same period as the asset is depreciated.
2. ESS will be considered a non-profit organisation, similar to an *ideell förening* in Sweden. In this case, the in-kind contribution may be considered a gift and will appear as revenue in the income statement or it will be accounted for as a grant against a fixed asset (netting the grant against the asset).
3. Members are regarded as equivalent to 'owners' in a limited liability company and their in-kind contributions will be made in their capacity as 'owners' or members of the ERIC. This means that the in-kind contributions will be treated in the same way as capital contributions, increasing equity, thereby aligning their treatment with that of cash contributions.

The first option (treating IKCs as government grants) was the practice followed by ESS until 2023. However, from an accounting perspective, treating IKCs as government grants may mean that they were not recorded in the same manner as cash contributions from Members, which were classified as capital contributions and are entered as equity in the

books. In order to remain compliant with applicable accounting principles and to ensure more transparency in the presentation of the financial statements, ESS ERIC must be coherent in the accounting of cash contributions and in-kind contributions by Members.

Following a review conducted by the Finance Department at ESS ERIC together with X-officio during 2023-2024, it was decided, after confirming with ESS ERIC external auditors, to prefer the third approach over the previous approach, citing the following advantages:

1. Since at ESS ERIC cash contributions are accounted as capital contributions (increasing equity), ESS should apply the same method of accounting to in-kind contributions in order to remain compliant with applicable accounting principles.
2. Accounting cash and in-kind contributions in the same way also contributes to making the financial statements more transparent and robust for ESS and its governing bodies.
3. The value of the in-kind contributions for recording in the ESS books may continue to be derived from the “Cost Book for In-Kind Contributions”, as these values are also used by the IKRC and the ESS Council for approving and crediting in-kind contribution.

“Genuine” in-kind and “cash” in-kind

At ESS ERIC, a peculiar practice of delivery of in-kind contributions has developed so that, in practice, there are a number of variations to the framework of IKC described above, due to certain political and legal constraints. Broadly, two “types” of in-kind contributions have been put into practice at ESS ERIC:

“Normal” In-kind : The Member (usually through its funding agency or ministry) provides a budget to the IK Partner. The IK partner enters into an IKC agreement with ESS ERIC to deliver the relevant in-kind contribution, as specified in the TA. Following approval by the ESS ERIC Council, the Member is credited with the relevant value assigned to the in-kind contribution, counting towards its overall contribution to ESS.

“Cash” In-kind : Under this arrangement, the Member (usually through its funding agency or ministry) makes a cash payment to ESS ERIC (beyond its regular cash contribution). The payment is earmarked specifically for the IK Partner and is transferred to the IK Partner once it has completed the delivery of the in-kind contribution to ESS and that the in-kind contribution had been approved by the Council.

This practice at ESS added an additional layer of complexity. ‘Cash-IK’ transactions were always booked, with the intention of transferring all cash to the IK partners after delivery of the IKC. Once all cash has been transferred to the IK partner, it was supposed to be booked as ‘normal’ IK as described above.

Steps taken by ESS ERIC to strengthen transparency in accounting of IKCs

In August 2023, the Finance Group has initiated a process of review of the current practices for recording 'normal' and 'cash' in-kind contributions. The review process was conducted with the assistance of X-officio*³ and ESS external auditors and included the following key steps:

- Mapping the process of in-kind contributions at ESS, reviewing documentation and identifying gaps.
- Analysing how in-kind contributions have been recorded in the ESS books over the past years.
- Identifying how in-kind contributions are reported to the Finance Group.
- Conducting meetings with IK stakeholders at ESS to gather insights and feedback.
- Organising three half-day working sessions with ESS's external auditors from KPMG to:
 - re-analyse the ERIC framework and Swedish accounting law concerning accounting of Members' cash and in-kind contributions;
 - explore all options and examine ESS's proposed solutions of recording in-kind contributions in a robust and transparent manner, while remaining compliant with applicable accounting principles; and
 - agree on the most transparent and correct way to record in-kind contributions.

Following the review process, assessment and evaluation, the following conclusions have been derived:

- Contributions in cash and in-kind must be accounted for in a more coherent way, making the financial statements more transparent and robust for ESS and its governing bodies.
- Since cash contributions are accounted as capital contributions (increasing equity), ESS will apply the same method of accounting to in-kind contributions.
- The value of the in-kind contributions for recording in the ESS books may continue to be derived from the "Cost Book for In-Kind Contributions", as these values are also used by the IKRC and the ESS Council for approving and crediting in-kind contributions.
- Normal IKCs will be transferred to a new equity account. IK contributions which constitute fixed assets under Swedish accounting rules will be recorded in the asset ledger.
- IK contributions that have not been previously booked will be backfilled on the new equity account.

Conclusions

IKCs at ESS ERIC have taken multiple forms, adding complexity to the project's financial management. Given the significant role that IKCs play in building one of the largest science and technology infrastructure projects in the EU, it is crucial to establish a coherent and transparent system for an accounting framework for IKCs. ESS ERIC, as a complex research infrastructure, has faced various challenges in recording IKCs due to their differing nature, such as "normal" in-kind and "cash" in-kind contributions, each requiring careful attention in the accounting process.

The steps taken to harmonise the treatment of IKCs, including aligning them with capital contributions, have strengthened the clarity and transparency of the financial statements. This process ensures that both cash and in-kind contributions are consistently accounted for in ESS's books, similar to cash contributions, thereby making the financial reporting more robust, transparent and reliable.

The experience of ESS ERIC in handling the complexities of in-kind contributions can serve as a valuable reference for other ERICs and organisations with similar scopes of activity, offering insights into managing such IK contributions in a transparent and effective manner.

Conflicts of interest

The authors have declared that no competing interests exist.

Endnotes

- *1 An ERIC is a specific legal entity designed by the European Commission to facilitate the joint establishment and operation of research infrastructures of European interest. See further <https://www.xofficio.eu/post/the-european-research-infrastructure-consortium-eric>
- *2 See also Los W, Năpăruş-Aljančić M, Bileva T, Chatzinikolaou E, Graber-Soudry O, de Moncuit L, Neto M, Pesole G, Vallejo Abascal M, Grozdanova D (2024) The lifeblood of LifeWatch ERIC: national in-kind contributions. Research Ideas and Outcomes 10: e121887. <https://doi.org/10.3897/rio.10.e121887>
- *3 <https://www.xofficio.eu/>