Average overhead rate of 116 pct. as well as indicative minimum profit margin pertaining to 2023 related to activities under the rules for income-generating activities (IGAs)

This memorandum addresses the pricing of AU's projects launched in accordance with the rules for income-generating activities (IGAs). This includes areas where AU operates on market conditions on equal footing with other private and public sector institutions.

As a state-financed independent institution, AU is subject to various requirements, including the Ministry of Finance's budget guidelines on pricing. These guidelines stipulate that pricing must cover all direct and indirect costs and that the university shall not be in unfair competition price-wise with other operators on the market.

In order to ensure that AU meets these requirements, an ***overhead rate*** as well as an ***indicative minimum profit margin*** is prepared annually by the Finance Secretariat and the Project Unit.

The overhead rate is to ensure that indirect costs are covered, while the minimum profit margin is to ensure that the IGA generate a profit. The latter is to avoid unfair competition in relation to other operators on the market.

Table 1 below applies to the pricing of IGA projects in the fiscal year 2023. Please note that the overhead rate only concerns direct salary, while overhead rates are not included with respect to any direct operating costs for the project. The requirement for a profit applies to all costs.

Table 1. Overhead rates and minimum profit margins for pricing of IGA projects 2023

Type	Factor 2023
Overhead rate direct salary	116%
Overhead rate direct operating costs	0%
General profit margin (EBIT margin)	≥10%
General profit margin monopoly	= 0%
Market specific profit margin (must be documented)	> 0%

The overhead rate of 116% must be applied to all IGA projects, while the profit margin may vary dependent on the market situation. The profit margin of minimum 10% is recommended as a starting point.

On average overhead rates: AU uses a common overhead rate for the entire university to cover indirect costs and regulatory issues.

The overhead rate is an average for the entire university and is to be applied to all IGA projects. It covers indirect costs such as rent, costs pertaining to support functions as well as costs for general management and administration.

In addition, there is a regulation of 0.75% which takes into account costs held by private operators on the market, but which are not payable by AU as a state-financed independent institution. For competitive reasons, these costs must be included in the price of the product or the service. E.g., AU does not pay registration fees on company cars, which means that, in contrast to private companies, AU pays neither industrial injury insurance nor liability insurance for vehicles and employees, as the university is covered by the state self-insurance scheme.

The calculation of the overhead rate is based on the assumption that all indirect costs are included in (Ordinary Activities (DR1)). The overhead rate is calculated as the sum of indirect costs divided by the sum of direct salary.

Table 2 below shows a calculation, based on a 5-year average for 2017-2021. The average overhead for the period is 118 pct., which is slightly higher than the 116 pct. which is used for 2023, cf. Table 1. The slight deviation in percentage is due to consideration given to continuity in relation to the overhead percentage for 2022, which was 116 pct. This was explained in a separate memorandum, cf. the last paragraph on updated calculation method.

Table 2. Documentation of overhead rates 2023

Calculation of IGA overhead at AU (amount current prices, TDKK)						
	2017	2018	2019	2020	2021	Ave. 17-21
Indirect costs (only DR1)						
Technical and Administrative Staff Salaries (TAS) (indirect salary)	**-1.474.255**	**-1.499.618**	**-1.532.016**	**-1.570.055**	**-1.575.243**	
TAS salary	*-1.325.063*	*-1.349.048*	*-1.383.743*	*-1.411.678*	*-1.458.977*	
Parttime TAS salary	*-53.005*	*-53.903*	*-55.548*	*-47.712*	*-48.157*	
Anden salary	*-96.187*	*-96.668*	*-92.725*	*-110.665*	*-68.110*	
Centrally distributed rent	**-652.193**	**-665.791**	**-683.083**	**-665.842**	**-666.440**	
Other costs	**-1.156.937**	**-1.103.260**	**-1.044.844**	**-974.139**	**-982.862**	
Other bulding costs	*-335.519*	*-261.791*	*-256.896*	*-234.243*	*-224.650*	
Travel, accommodation and per diem	*-110.557*	*-112.665*	*-122.107*	*-42.013*	*-54.083*	
Printing and binding	*-21.738*	*-20.034*	*-19.350*	*-19.000*	*-17.171*	
Telephone subscriptions and internet connections	*-10.508*	*-9.744*	*-7.288*	*-8.173*	*-8.405*	
Services	*-438.413*	*-500.129*	*-463.859*	*-468.953*	*-492.136*	
Data equipment	*-71.949*	*-44.921*	*-44.500*	*-62.484*	*-52.582*	
Laboratory	*-54.626*	*-63.982*	*-54.730*	*-59.144*	*-57.899*	
Materials and supplies	*-113.627*	*-89.994*	*-76.115*	*-80.130*	*-75.937*	
Depreciation	**-89.810**	**-81.357**	**-82.146**	**-77.945**	**-75.677**	
Regulatory issues *Set at 0.75pct. of the above costs*	**-25.299**	**-25.125**	**-25.066**	**-24.660**	**-24.752**	
Total indirect costs (only DR1)	-3.398.494	-3.375.151	-3.367.155	-3.312.641	-3.324.973	
Total expenses for AU (all DR)	**-6.506.960**	**-6.604.893**	**-6.729.227**	**-6.696.184**	**-6.955.048**	
Salary expenses here of (all DR)	**-4.101.587**	**-4.238.200**	**-4.410.365**	**-4.533.005**	**-4.683.641**	
TAS Salaries DR1 (indirect salary)	**-1.474.255**	**-1.499.618**	**-1.532.016**	**-1.570.055**	**-1.575.243**	
Direct salary expenses	-2.627.332	-2.738.582	-2.878.349	-2.962.950	-3.108.398	
AU's average overhead rate for commercial activities:						
Indirect costs/direct salary expenses	129%	123%	117%	112%	107%	118%
Note: Even if the 5-year average is 118 pct., the AU overhead rate of 116 in 2023 is maintained – ie. unchanged from 2022.						
This is explained in a separate memorandum on updated calculation principles from 2022 to 2023.						

Profit margin

The Ministry of Finance's budget guidelines stipulate that the institution must include a profit corresponding to what would be normal for a comparable private provider. The size of the profit should be seen in light of the market situation. In the events where it is possible to identify a market price, this will constitute the minimum price.

When AU determines a minimum profit margin of 10 pct., cf. Table 1, it should be seen in connection with the above. This means that if there is a market price higher than 10 pct. or it is possible to negotiate a price with the requisitioner for the IGA service giving a higher profit, this should always be selected. Hence, the 10 pct. is a ***minimum profit margin*** to fall back on, in the event that none of these conditions can be met. It is possible to use a lower profit margin, if the market operated in has a lower profit margin.

The minimum profit margin is determined partly to avoid the unintentional undercut/price dumping of the market in relation to other operators on the market, partly from a general view that AU should not participate in IGA collaborations if there is no prospect of a significant profit.

Especially for monopoly-like situations

Everything described above in this memorandum applies only to markets where AU is not in a monopoly-like situation. In monopoly-like situations other rules apply where the budget guidelines stipulate that the price that ensures coverage of costs simultaneously to a maximum for the pricing of the product or service in question. I.e. that the project profit margin should be set at zero.

Update of technical calculation method from 2022 to 2023

Please note that from 2022 to 2023 the AU calculation method behind the factors has undergone a minor update. The purpose of the update is to simplify the calculation method and to make the overhead percentage less volatile from year to year. This is effected by calculating the overhead percentage from 2023 based on a multi-annual accounting period rather than on one year only and by only changing the overhead rate in relation to previous years in case the change is minimum 5 percentage points (which explains why the overhead rate in Table 1 is kept unchanged at 116 pct. in comparison to 2021, despite the fact that the recalculated overhead percentage in Table 2 is 118 pct.). The updated principles are justified and described more explicitly in a separate memorandum ("Update of principles from 2022 to 2023 concerning calculation of indicative overhead and minimum profit rates for IGA projects").