

Average overhead rate of 116 % as well as indicative minimum profit margin pertaining to 2024 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 2024. 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 2024

Type	Factor 2024
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 is unchanged from 2022 and 2023. 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 2018-2022. The average overhead for the period is 113 %, which is a little lower than the 116 % which is used for 2023, cf. Table 1. However, the overhead rate will remain at 116 % in 2024 (corresponding to 2022 and 2023), as the deviation from the calculated 113 % is below the minimum adjustment threshold. This is elaborated on the memo's final section on the minimum limits for updating.

Table 2. Documentation of overhead rates 2024

Calculation of IGA overhead at AU (amount current prices, 1DKK)						
	2018	2019	2020	2021	2022	Gns. OH
Indirekte omkostninger (kun DR1)						
TAP Lønninger (indirekte løn)	-1.497.465	-1.528.802	-1.573.798	-1.572.529	-1.569.095	
TAP-løn	-1.349.048	-1.383.743	-1.411.678	-1.458.977	-1.452.041	
DTAP-løn	-53.903	-55.447	-47.449	-47.954	-54.798	
Anden-løn	-94.515	-89.613	-114.671	-65.599	-62.256	
Husleje	-631.630	-649.448	-631.302	-631.003	-656.298	
Øvrige omkostninger	-1.137.693	-1.080.286	-1.010.909	-1.017.237	-1.120.486	
Driftsrelaterede bygningsomkostninger	-295.952	-297.535	-273.638	-263.976	-331.871	
Rejser, hotel og forplejning	-112.665	-115.103	-37.158	-50.194	-95.026	
Trykning og indbinding	-20.034	-19.350	-19.000	-17.171	-18.276	
Telefonabonnementer- og internetforb	-9.744	-7.288	-8.173	-8.405	-8.475	
Tjenesteydelser	-500.129	-463.859	-468.953	-492.136	-476.084	
Dataudstyr	-44.921	-44.500	-62.484	-52.582	-50.322	
Laboratorie	-63.982	-54.730	-59.144	-57.899	-50.538	
Varer og materialer	-90.266	-77.922	-82.360	-74.876	-89.894	
Afskrivninger	-81.653	-79.960	-76.849	-76.586	-80.899	
Reguleringsmæssige forhold	-25.113	-25.039	-24.696	-24.730	-25.701	
Sat til 0,75 pct. af ovenstående omk.						
Indirekte omkostninger i alt. (kun DR1)	-3.373.554	-3.363.535	-3.317.554	-3.322.085	-3.452.478	
Samlede udgifter for AU (alle DR)	-6.605.729	-6.730.090	-6.697.751	-6.955.372	-7.351.818	
Heraf lønomkostninger (alle DR)	-4.236.047	-4.406.891	-4.536.414	-4.680.620	-4.854.175	
Heraf TAP Lønninger DR1 (indirekte løn)	-1.497.465	-1.528.802	-1.573.798	-1.572.529	-1.569.095	
Direkte lønudgifter	-2.738.582	-2.878.089	-2.962.617	-3.108.090	-3.285.079	
AU's gennemsnitlige overhead sats for kommercielle aktiviteter:						
Indirekte omkostninger/direkte lønninger	123%	117%	112%	107%	105%	113 %
Note: Even if the 5- year average is 113 pct., the AU overhead rate of 116 %. in 2024 is maintained- is unchanged from fra 2022 and 2023						
This is explained in a separate memorandum on updated calculation principles from 2022 to 2023: WZ Document D-6477827						

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.

Trivial limit for updating overhead rate

In order to limit small fluctuations in the overhead rate from year to year, it is calculated from the average of a multiannual accounting period. Furthermore, the overhead rate shall only change in relation to the previous year if the change is at least 5 percentage points. Therefore, the overhead rate in Table 1 is kept unchanged at 116 pct. despite the fact that the recalculated overhead percentage in Table 2 is 113 pct. The updated principles are justified and described more explicitly in a separate memorandum (Workzone document No. D-6477827 "Update of principles from 2022 to 2023 concerning calculation of indicative overhead and minimum profit rates for IGA projects").