Pricing guidelines for income-generating activities (DR2)

The general rules on how government institutions must set the price of their goods and services are described in the budget guidelines. For income-generating activity, the following conditions apply when goods or services are to be priced:

1. Full cost recovery
2. There must be no distortion of competition in relation to potential non-government suppliers
3. A minimum surplus must be included

The above considerations are reviewed in more detail below.

Full cost recovery
Full cost recovery includes the direct and indirect costs of the project.

Direct costs include, for example:
1. Salary
2. Materials
3. Services
4. Travel expenses

I.e. all the direct costs to complete the project.

Indirect costs fall into three groups:
1) Other indirect costs attributable to the project
2) Joint costs (overhead)
3) Regulatory costs

Re 1. Other indirect costs attributable to the project
Other indirect costs attributable to the project should be included in the pricing calculation as separate items. These may include:
- Professional indemnity insurance, product liability.
- Laboratory supplement
- Risk supplement, e.g. risk of delays, fines, etc.
- Development costs (courses, consultancy, etc.).

Re 2. Joint indirect costs (overhead)
Indirect joint costs are a number of costs incurred by AU under sub-financial statement 1. Examples include administrative salaries, office costs, IT and rent

Indirect joint costs are included in a joint overhead rate added to the project price calculation. The overhead rate is recalculated once a year by Financial Control on the basis of the last approved accounts and applies for the coming year. The applicable overhead rate is a minimum rate and is stated in the price calculation form.

Re 3. Regulatory indirect costs
In order to avoid distortions of competition, a number of calculated costs must be included. Costs that a private company would incur, but from which AU is exempt or has more favourable terms and conditions. These costs are called regulatory costs. The following are examples of regulatory costs, and the list is not exhaustive:

- Some DR2 activities use equipment procured with donated funds. A private company has to borrow money to finance similar equipment. For AU, this is a 'free benefit' paid for by others.
- Use of information paid for by other external funding must be included.
- AU is subject to the Danish government rules on self-insurance. Private companies have to take out insurance to cover employees in the event of work-related injuries. But this does not apply for AU.
- Similarly, AU is exempt from car taxes and insurance, but private companies have to pay the costs and take out insurance.
- All taxes and duties from which AU is exempt by virtue of being a state institution, but which a private operator has to pay.

A number of these "free" benefits relate to a specific individual service (must be included in the price calculation as separate items), and others are common to the entire university.

The costs (regulatory) that can be considered as shared by the whole of AU are technically calculated and included in the overhead. These are the self-insurance scheme, car taxes, and auditing.

Minimum surplus (EBIT)
In addition to the full cost recovery described above, a surplus must be included for income-generating activities. The surplus should at least correspond to a normal surplus in the market in question. Conversely, however, there is no limit on how large the surplus can be. The surplus is not recorded in Navision, but can be read directly in the project's bottom line.

The market-determined EBIT margin calculated by Financial Control and published on the AU website together with the overhead calculation are used to determine the minimum surplus. The market-determined EBIT margin varies depending on the market in question.

Using the EBIT margin means that tax and financing are taken into account, as the EBIT margin is an expression of the surplus before tax and financing costs. When preparing the price calculation, the EBIT margin can be perceived as a 'cost'.

As stated in the guide on calculation of the EBIT margin, the margin is indicative and may be deviated from in specific market situations. If an alternative EBIT margin is applied, this must be documented and filed in Workzone on the case.

Verification calculation
In accordance with the guidelines, a verification calculation must be carried out, whereby AU follows up on whether the pricing of the service has been correct. Furthermore, the price of each service must, as a minimum, be adjusted on the basis of a verification calculation combined with knowledge of future economic events. The verification calculation and subsequent adjustment of the price must be made at least once a year.