

Capital expenditure in the health sector

The health and long-term care sectors remain highly dependent on labour inputs, but capital is also a key factor in the production of health services. How much a country invests in new health facilities, the latest diagnostic and therapeutic equipment and information and communications technology (ICT) can have an important impact on the capacity of a health system to meet the health needs of the population and thus contribute to better outcomes. For example, a low level of MRI and CT scanners (see indicator “Medical technologies” in Chapter 5) can have consequences on the ability to detect diseases at an early stage. However, the level of capital expenditure tends to fluctuate more from year to year than current spending on health services, as investment decisions can be much more dependent on economic circumstances and political or business choices as well as reflecting future needs and past levels of investment. In making such decisions, policy-makers and providers need to weigh up not only the short-term costs, but also the potential benefits in the short, medium and longer-term. As with any industry, a lack of investment spending in the present can lead to an accumulation of problems and bigger costs in the future as current equipment and facilities deteriorate.

For the most recent year available, the average capital expenditure in OECD countries was equivalent to around 5.6% of current spending on health (that is, on medical care, pharmaceuticals, etc.) and around 0.5% of GDP compared to 8.8% of GDP for current spending on health (see indicator “Health expenditure as a share of GDP”) (Figure 7.19). As is the case with current spending, there are significant differences in the levels of investment expenditure between countries and over time, especially as a result of the economic crisis.

In relation to their current spending, Luxembourg and Japan were the highest spenders in 2017 with the equivalent of more than 10% going on new construction, equipment and technology in the health and social sector, although in relation to its GDP, Luxembourg is closer to the average. A number of European countries – including Germany, Belgium, and the Netherlands – were also relatively high capital spenders, corresponding to around 9% of current spending on health. Both Japan and Germany spent more than 1% of GDP on capital investment in the health sector in 2017. The United States and the United Kingdom spent less than the average compared to current spending at 3.5% and 3.2%, although because of the very high expenditure on health services, this translated into a relatively high share of GDP in the case of the United States. Turkey, by contrast, allocated only 0.3% of GDP to capital spending in 2017 but this appears relatively high compared to its low current spending on health.

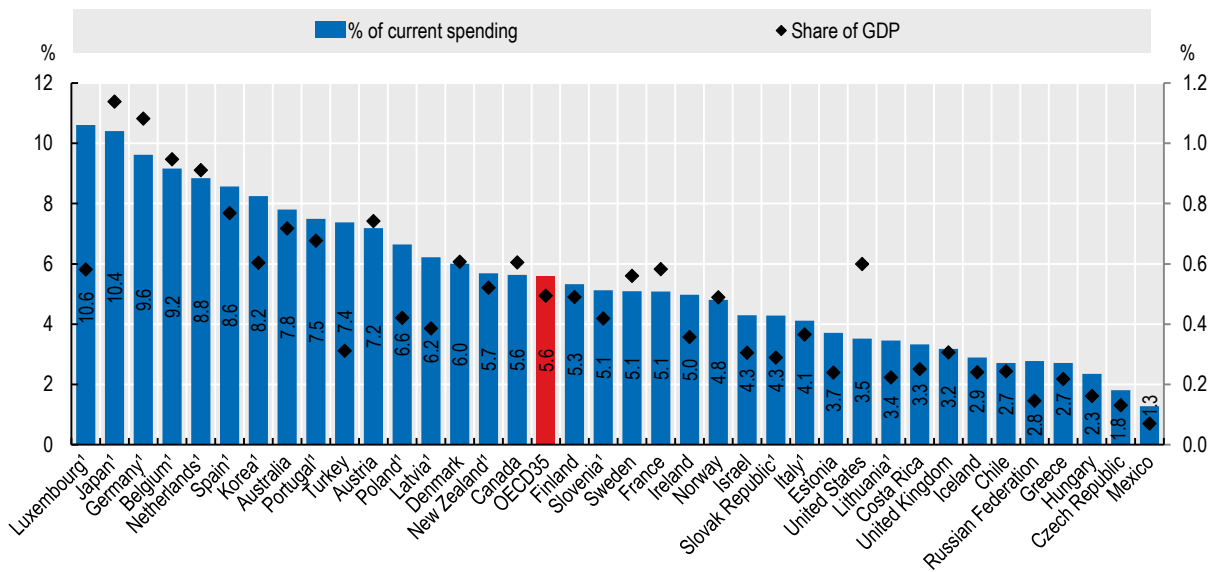
Capital spending fluctuates more than current spending from year to year, particularly in small economies, as capital projects on construction (i.e. building of hospitals and other health care facilities) and investment programmes on new equipment (e.g. medical and ICT equipment) are implemented. Decisions on capital spending also tend to be more affected by economic cycles, with spending on health system infrastructure and equipment often a prime target for reduction or postponement during downturns. Figure 7.20 shows an index of capital spending in real terms over a ten-year period for a selection of European and North American countries. While France maintained a constant level of capital investment over the period, both the United Kingdom and, in particular, Greece reported a sharp drop in capital spending in the wake of the global financial and economic crisis, and expenditure remains at levels well below that of 2007. Both the United States and Canada have current capital spending similar to the levels (in real terms) before the crisis. There was a marked increase in capital expenditure in Canada in 2010/11 as a counter-cyclical measure, which was even more pronounced in Mexico from 2008-12, as the public health insurance (*Seguro Popular*) was significantly expanded.

Definition and comparability

Gross fixed capital formation in the health sector is measured by the total value of the fixed assets that health providers have acquired during the accounting period (less the value of the disposals of assets) and that are used repeatedly or continuously for more than one year in the production of health services. The breakdown by assets includes infrastructure (e.g. hospitals, clinics, etc.), machinery and equipment (including diagnostic and surgical machinery, ambulances, and ICT equipment), as well as software and databases.

Gross fixed capital formation is reported by many countries under the System of Health Accounts. It is also reported under the National Accounts broken down by industrial sector according to the International Standard Industrial Classification (ISIC) Rev. 4 using Section Q: Human health and social work activities or Division 86: Human health activities. The former is normally broader than the SHA boundary while the latter is narrower.

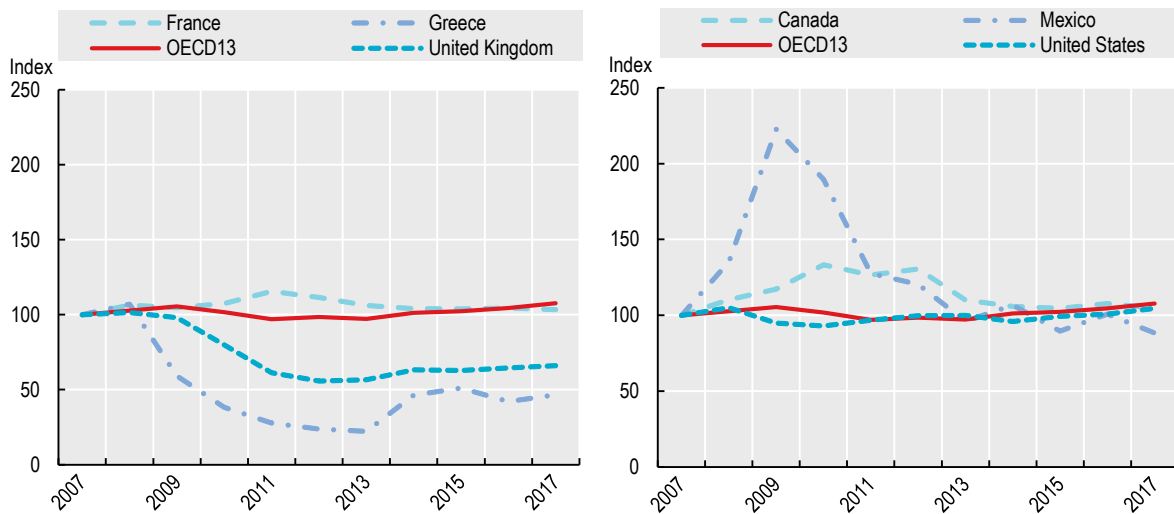
Figure 7.19. Capital expenditure on health as a share of current health expenditure, 2017 (or nearest year)



1. Refers to gross fixed capital formation in ISIC Q: Human health and social work activities (ISIC Rev. 4).
Source: OECD Health Statistics 2019, OECD National Accounts.

StatLink <https://doi.org/10.1787/888934017120>

Figure 7.20. Trends in capital expenditure (constant prices), selected countries, 2007-17



Source: OECD Health Statistics 2019, OECD National Accounts.

StatLink <https://doi.org/10.1787/888934017139>



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