

Scrappage: a false economy?

We take a closer at the pros and cons of the car scrappage scheme and, over the page, the rise of new car prices

IN BRIEF

In this report we help you to:

- decide if it's worth scrapping your old car to buy a new one
- find the best deal if you're looking to buy a new car

The aim of the government's much talked about scrappage scheme is to get car buyers back into showrooms and to restart some of the frozen production lines in the UK, such as Mini, Honda, Nissan and Toyota.

Since the scheme started, there has been renewed interest in buying new cars. The 'green' benefits of the scheme are questionable, though. Is it really better to crush a decent 10-year-old car and buy a new one? The jury's out. And while the scheme may be good for the economy, does it make sense for consumers?

Most buyers are being attracted by the £2,000 discount on a new car, so we've had a closer look at the financial case for scrappage on some popular models.

Who will use it?

Anyone is eligible to take advantage of the scrappage scheme, provided that their old car and the new one meet the criteria (see 'The facts', opposite).

The scheme is likely to prove most popular with those who can still afford the cost of a new car once the £2,000 has been deducted – in most cases, the total price will be more than £5,000.

For that reason, some analysts have suggested that it will be a hit with older car buyers with a higher disposable income and good savings.

Paying with cash is the best way to benefit from the scheme, as the cost of finance deals on many cars significantly pushes up the total price paid (there are currently no 0% finance deals available on scrappage offers, for example).



Confusing discounts

There's been a lot of confusion about the way the scrappage discount works. It's important to note that, when you're scrapping a car, the discount usually replaces any other discount you may negotiate in the showroom. This is not necessarily sharp practice on the part of dealers and manufacturers. They have been asked to contribute £1,000 or more to the discount, and this is being financed from their usual 'margin' on a new car.

However, where you can normally get significantly more than a £1,000 discount simply by haggling – as is the case on some big-volume models – you should expect the manufacturer to top



CAR PRICE SAVINGS	CITY CAR	SUPERMINI	MEDIUM HATCH	
	FIAT PANDA 1.3 MULTIJET DYNAMIC	SKODA FABIA 2 1.2 12V 5-DR	HYUNDAI i30 1.4 COMFORT	FORD FOCUS 5-DR
BUYING NEW WITHOUT SCRAPPAGE				
New list price	£9,395	£10,325	£11,495	£17,045
Likely discounted price without scrappage ^a	£7,052	£8,590	£9,296	£12,131
BUYING NEW WITH SCRAPPAGE				
Scrappage discount	£2,400	£2,500	£3,500	£3,700
Discounted price with scrappage ^b	£6,995	£7,825	£7,995	£13,345
BUYING NEARLY NEW				
Typical price of a one-year-old car ^c	£6,498	£7,990	£8,495	£9,895
Likely price after discount (5%) ^d	£6,173	£7,591	£8,070	£9,400

Prices highlighted in red are what we consider to be the best deals ^a Best price from either Broadspeed.com or Drivethedeal.com, 30 June 2009 ^b Based on June used car from a franchised dealer, with less than 10,000 miles, as advertised on Autotrader, 30 June 2009 ^d Assuming a 5% discount on an approved-used car



WHICH.CO.UK

For more on the car scrappage scheme, including an in-depth look at its pros and cons, go to

www.which.co.uk/scrappage

up the scrappage discount. This is quite common, and, as our table shows, £2,000 is the minimum discount you should expect under the scrappage scheme.

Is it a good deal?

To see how good a deal the scheme is, we've looked at a selection of popular new cars and compared the cost of buying them in three ways: new without the scrappage scheme; new with the scheme; and nearly new (buying a car that's up to a year old). See the table, below.

Even on smaller cars with lower list prices, we found the scheme often isn't cheaper than buying a one-year-old car. But the price difference is small enough

that you may decide to do it anyway – especially if you think it's worth spending more to be able to specify options and get the benefit of the manufacturer's full warranty.

However, on the Ford Focus we looked at – where list prices have gone up considerably (see p66) – the one-year-old car looked much better value, at nearly £4,000 less than the scrappage deal. You can also find a better discount on a new Focus via an internet car broker if you're not scrapping your old car. So if you can sell your old car for £800, you would be much better off doing that and simply haggling for the 'regular' discount on a Focus.

A year-old Mazda6 is also much better value than the new examples, which shows that if you're buying a bigger, costlier car, you need to make sure you get more than £2,000 off the list price.

And even with a good scrappage deal, the discount is unlikely to cover the cost of the first year's depreciation.

Worth the wait?

One criteria of the scrappage scheme is that the car you order must be delivered within 16 weeks. That sounds simple enough, but many of the smaller cars that have proved most popular with scrappage buyers can have long waiting lists.

A spokesman for the Society of Motor Manufacturers and Traders (SMMT) told us: 'Not surprisingly, there has been greatest interest in smaller-engined, lower-cost cars, and demand for these will be higher than usual. The new vehicle has to be delivered within four months of the order being placed because the scheme is time-limited with a fixed budget.'

When placing your order, check with the dealer that the car can be delivered in time. And if your local dealer can't make that promise, try shopping at another or via an internet car broker.

The SMMT also told us that manufacturers of the most popular cars have been trying to boost supply to meet the increased demand, but that this can take time to filter through the supply chain.

If you don't qualify for scrappage

If your old car was registered too recently to qualify for the scrappage scheme, don't worry. There are still good deals available on new cars – you'll just have to sell your old wheels and haggle hard. But watch out for rises in new car prices... See p66 for more.

The facts

What you need to know about the car scrappage scheme



Carmakers don't have to take part

- Drivers with cars meeting the criteria for the scheme (see below) are entitled to £2,000 off the price of a brand-new car: £1,000 from the government, and £1,000 (or more) from the car manufacturer.
- The scheme was introduced on 18 May 2009 and will run until 28 February 2010, or until the government's £300m funding runs out – whichever comes first.
- Carmakers aren't obliged to take part – it's a voluntary scheme. However, major manufacturers are supporting the scheme by contributing £1,000 or more towards the scrappage discount (depends on make and model).
- As of mid-June, 60,000 orders had been placed under the scheme, according to the Department for Business, Innovation & Skills, already exhausting one fifth of the government's £300m funding pot.

Scrappage criteria

To qualify for the scrappage scheme, your old car must:

- have been first registered on or before 31 August 1999
- have a valid MoT certificate
- be taxed and insured
- be registered with the Driver and Vehicle Licensing Agency (DVLA) in your name
- have been registered to you for at least a year
- be a car or light commercial vehicle weighing up to 3.5 tonnes
- be registered to the same name and UK address on the registration certificate (V5C) as the new vehicle you're buying, and
- be clear of any financing arrangement, and not classified as an insurance write-off.

	MINI MPV	LARGE CAR
1.6 ZETEC	NISSAN NOTE 1.4 VISIA	MAZDA6 2.0 TS 5-DR
	£9,990	£17,210
	£9,391	£15,761
	£2,000	£2,000
	£7,990	£15,210
	£7,495	£11,999
	£7,120	£11,399

2009 offers and prices c Based on a 2008/08-registered approved-after haggling

FORD FIESTA**14%****VAUXHALL INSIGNIA****14%****FORD GALAXY****12%**

New car prices

There's been a lot of movement in new car prices over the past 12 months, but not necessarily in the direction you'd expect

The usual rules of supply and demand suggest that flagging sales should be closely followed by a price drop. But while we witnessed huge discounting at the end of 2008 and in early 2009 as carmakers cleared old stock, this hasn't been the case in the new car market in recent months. Many manufacturers have raised list prices, with increases of up to 14% on certain models.

We spotted that prices for the luxury Lexus LS460 SE have jumped by £3,660 since September 2008, but that's not the worst offender in percentage terms. Mainstream carmakers seem to be feeling the pinch the most, which means that everyday car buyers are having to stump up more.

Prices up, discounts down

■ Take Ford's popular Fiesta. We've found that the price for a mid-spec, five-door 1.25 Zetec has jumped from £11,570 in October 2008 (when the car was launched) to £13,195 in July 2009 – that's a massive 14% increase.

When we analysed our *Which? Car* 'Target Discounts' in December 2008, the possibility of negotiating 14% off a Fiesta seemed realistic. However, by July 2009 we thought that the best deal you'd be able to get on a Fiesta would be 12%

off the list price. This means that you could end up paying £1,871 more.

■ Another chart-topping supermini, the Nissan Micra, was priced 11% higher in July 2009 than in September 2008. The five-door 1.4 Tekna had a list price of £11,200 in September 2008, but that had grown by £1,195 as of July 2009.

In December 2008, we thought you'd be able to negotiate a discount of 13% on the Micra's list price, but by July 2009 our Target Discount had dropped to 8%, so you could actually find yourself paying £1,608 more.

■ Vauxhall's new Insignia isn't immune either. The 1.8 SE five-door hatchback looked affordable in January 2009 at £17,981, but it has now broken through the psychological £20k barrier – it had a list price of £20,430 as of July 2009, also a 14% jump.

There's not as much room for manoeuvre at dealers either: discounting has fallen from 15% in December 2008 to 12%, according to our June figures, leaving you an extra £2,694 out of pocket.

With these prices in mind, it's easy to suspect manufacturers are inflating prices at a time when the scrappage scheme requires them to chip in at least £1,000 in discounts on a new car. There could be an element of that, but the reality

is more complicated – global economic conditions have certainly forced a rethink of UK car prices.

Exchange rate recoils

Audi, Ford and Toyota have all blamed exchange rate shifts for their price rises. It's true that sterling has suffered against the euro and the yen.

In September 2008, £1 was equivalent to €1.23 or ¥194.8. As of July 2009, £1 buys €1.16 or ¥150.3.

So many manufacturers have been forced to put their prices up to cover production costs. When Audi put its prices up in February 2009, it said: 'as a result of increased financial pressure exerted by the euro-to-sterling exchange rate... [we are] adjusting pricing to reflect current conditions'.

Ford cites similar pressures. Nigel Sharp, managing director of Ford of Britain, said: 'Ford is reacting to the sustained weakness of the pound against the euro. Raising prices in difficult times may seem counterintuitive, but, with so many of our costs priced in euros, we have no choice if we are to maintain a viable business.'

'The cost impact of [currency fluctuations] on a car priced at £15,000 is close to £3,500. The total revenue impact on Ford's UK business has been huge – well into nine figures.'

In March, Toyota told us that higher material prices had pushed up production costs and that this, coupled with a 'significant difference' in the sterling-to-yen exchange rate, had made the increases necessary.

But a spokesman added: 'There is, of course, still plenty of room for negotiation – dealers have room to manoeuvre on pricing.'

WHICH.CO.UK

What is your car worth? We've got the latest new and used car prices in our Car Buying Guide

www.which.co.uk/carbuyingguide

FORD FOCUS



11%

NISSAN MICRA



11%

VOLVO XC90



-2%

Toyota also argues that its British-built models are subject to similar pressures because many of its parts suppliers lie within the eurozone. So, although the Auris and Avensis are built in Derbyshire, prices are up by around 6% and 8%, respectively.

In the case of the Avensis, the large price rise comes just months after its January 2009 introduction.

Bucking the trend

Some manufacturers have managed to resist big price increases despite the rising costs of raw materials and spiralling exchange rates.

Hyundai's i30 1.6 Comfort five-door hatchback, a *Which?* Car Best Buy, has gone up by just £35 since September 2008. Swedish icon Volvo has actually dropped prices since last year on some models – the XC90 we looked at was £970 cheaper in July 2009 than it was in September 2008.

Can you beat the rises?

It's been widely suggested that more price rises are on the way, so if you want to buy a new car, it might pay to move swiftly.

When you're placing an order, try to 'fix' the price of the car with the dealer on the day you order, so that you don't get stuck with having to pay for any price rise at the time of delivery (which frequently happens).

Also, haggle hard and play the dealers off against each other. Reputable internet car brokers (such as www.broadspeed.com and www.drivethedeal.co.uk) can save you the legwork here.

Finally, consider buying nearly new (see p65) to take advantage of a car's earlier, cheaper prices – and to offset some of the depreciation.

NEW CAR PRICE TRACKER

	ENGINE/FUEL	TRIM	BODY	LIST PRICE IN SEPTEMBER 2008 (£)	LIST PRICE IN JULY 2009 (£)	PRICE CHANGE (£)	PERCENTAGE CHANGE (%)
FORD Fiesta	1.25 [82] petrol	Zetec	5dr hatch	11,570 ^a	13,195	1,625	14
VAUXHALL Insignia	1.8i 16v petrol	SE	5dr hatch	17,981 ^b	20,430	2,449	14
CITROEN C5	1.6HDi diesel	SX	4dr saloon	16,200	18,195	1,995	12
FORD Galaxy	2.0 diesel	Zetec	5dr estate	24,050	26,845	2,795	12
FORD Focus	1.8 petrol	Zetec	5dr hatch	16,350	18,195	1,845	11
NISSAN Micra	1.4 petrol	Tekna	5dr hatch	11,200	12,395	1,195	11
FORD Mondeo	2.0 diesel	Titanium X	5dr hatch	23,300	25,645	2,345	10
RENAULT Megane	1.6 [110] petrol	Dynamique	5dr hatch	15,425 ^c	16,135	1,445	10
PEUGEOT 308	1.6 [110] diesel	SR	5dr hatch	16,215	17,745	1,530	9
PEUGEOT 407	2.0 diesel [136] auto	Sport	5dr SW	22,162	24,245	2,083	9
MAZDA 2	1.4 diesel	TS2	5dr hatch	11,004	12,145	1,041	9
VAUXHALL Astra	1.6 16v petrol	Club	5dr hatch	15,290	16,620	1,330	9
VOLKSWAGEN Golf	1.6 petrol	S	5dr hatch	14,680 ^b	15,080	1,197	9
VAUXHALL Corsa	1.2 16v petrol	Club [AC]	3dr hatch	10,550	11,440	890	8
TOYOTA Avensis	1.8 V-matic petrol	TR	4dr saloon	17,470 ^b	18,295	1,388	8
TOYOTA Auris	2.0 diesel	TR	5dr hatch	15,600	16,595	995	6
LEXUS LS	460 petrol auto	SE	4dr saloon	65,710	69,370	3,660	6
AUDI A4	1.8T petrol	S-line	4dr saloon	22,805	23,915	1,110	5
NISSAN Qashqai	2.0 diesel	Acenta	5dr hatch	18,304	19,050	746	4
BMW 3 Series	320d diesel	SE	4dr saloon	26,085	26,680	595	2
AUDI A3 cabrio	2.0T petrol	Sport	2dr cabriolet	24,940	25,335	395	2
BMW 1 Series	118d diesel	SE	5dr hatch	21,010	21,160	150	1
HYUNDAI i30	1.6 [124bhp] petrol	Comfort	5dr hatch	12,460	12,495	35	0
VOLVO XC90	3.2 petrol auto	SE Lux	5dr estate	39,155	38,185	-970	-2

a Price at launch in October 2008 b Price at launch in January 2009

c Price at launch in November 2008