

RAC Cost of Motoring Index 2011

Foreword

It has not been an easy year for the motorist in 2011. At a time when family budgets are being squeezed, drivers have had to contend with record high fuel prices and a sharp increase in the cost of car insurance.

There are several reasons behind the increase in fuel costs. Top of the list were the VAT and fuel duty rises in January, with the 1p cut in duty during March's Budget being too little, too late. At the same time, the rising cost of personal injury claims has increased the price of motor insurance premiums.

In addition, drivers can no longer take comfort in their ability to achieve a good price when the time comes to sell their vehicle; the cost of depreciation has increased this year by over 14%, reflecting the state of the used car market.

This year's RAC Cost of Motoring Index clarifies the extent of the pain drivers are facing. The Index, which is based on a pool of 17 new cars and weighted by their ownership, reveals a 13% increase in the cost of owning and driving a car.

In response to these challenges, some drivers are giving more serious consideration to hybrids and even to full electric cars in an effort to cut fuel and road tax bills. In response to the growing number of low carbon vehicles becoming available, we've added the 'Cost of Low Carbon Motoring' to this year's Index. It joins the other additions we've made in recent years, which provide figures for owners of used cars and light commercial vehicles.

We hope the figures in the Cost of Motoring Index will continue to offer drivers the information that they need as they plan their household budgets for the year ahead. With more hikes in fuel duty planned for January and August, understanding the true cost of motoring will likely be more important than ever.

Angela Seymour-Jackson
Chief Executive Officer
RAC



Executive Summary

The 2011 Cost of Motoring Index, based on a pool of 17 cars, reveals that:

The average annual cost of owning and running a new car has **increased by £819 (14.0%) to £6,689**. It now costs £128.64 a week or 55.74p per mile

There have been sharp rises **in the cost of fuel, insurance and depreciation** which have all contributed to this increase

Small cars are **28.5% or £1,907 cheaper** than the overall average. Compared to 2010, small cars have become proportionately cheaper to own and run than large family cars

Used cars continue to be cheaper to own overall and cost an average of £4,724 per year. The gap in costs between new and used has widened slightly by £270 from 2010. However, when you consider just running costs, **used cars are £361 more expensive** to run than new cars.

The cost of driving a hybrid or all-electric car is £6,355. This is **5.0% cheaper** than driving an equivalent petrol or diesel car.

Commercial motoring costs (for vehicles under 3.5 tonnes) have **increased by £69 (0.78%) to £8,928 per year** in 2011. The increase is lower than other vehicles due to a fall in the cost of depreciation



1.0 The Cost of Motoring in 2011

This year's Cost of Motoring Index reveals that the average annual costs for owning a new car have increased by 14.0% to £6,689 over the last 12 months.

This makes 2011 the most expensive year to date to run a car, exceeding the previous high of £6,034 in 2008. It now costs an average of £1,556 more to drive a car than it did in 2007 before the financial crisis and subsequent recession.

The cost of motoring figure, based on a pool of 17 cars weighted by their ownership, takes into account all the factors involved in the owning and running of a car. This includes service, maintenance and repair, tax,

fuel, insurance, RAC membership, depreciation and the cost of car finance.

It now costs 55.74p per mile to own and run the average new car compared to 48.91p in 2010. This equates to a weekly cost of £128.64, which is an increase of £15.76 per week compared to 2010.

Overall costs – year on year comparison

consideration	new cars 2011	new cars 2010	% change
fuel	£1458	£1298	12.40
insurance	£551	£483	14.38
maintenance	£472	£434	8.8
vehicle excise duty	£111	£111	-0.00
RAC membership	£149	£143	4.21
depreciation	£3582	£3068	16.67
car finance	£366	£333	9.85
total cost (per year)	£6,689	£5,870	13.96
total cost (per week)	£128.84	£112.88	13.96

Annual overall costs

2009
£5,523

2010
£5,870

2011
£6,689



Stripping out long-term costs such as depreciation and finance, the pure day-to-day running costs for a new car have risen 11.1% (£275) to £2,743 from 2010.

1.0 The Cost of Motoring in 2011

Why the increase?

Insurance premiums witness steep rise

As in 2010, the cost of car insurance has again witnessed a steep rise this year. The average cost of insurance is now £551, 14.4% more than in 2010 and 35.0% more than in 2009. The rise in the cost of premiums is primarily due to an increase in the cost of meeting insurance claims. Rising costs from personal injury claims and associated legal costs, insurance fraud and uninsured drivers involved in accidents have all increased the price insurers are charging motorists for cover.

However, there is evidence that prices are beginning to fall with research from Confused.com suggesting that comprehensive insurance premiums dropped by 1.6% in the third quarter¹ of 2011. Also, if the proposed ban on referral fees comes into force, then

this should also reduce the cost of premiums in the long term.

Endless rise of fuel costs continues

Drivers of both diesel and petrol cars have seen a substantial rise in the cost of fuel this year. The price of diesel has increased 15.16% to 140.5p/litre, while petrol has increased 13.83% to 134.8p/litre (as at 1st November 2011). This is well above the rate of inflation. In 2010, it cost the average car owner £1,298 to keep their tank full. This figure has increased by just over 12% in 2011 to £1,458.

While improvements in the fuel economy of vehicles have helped hold down the average increase to 12.40%, these improvements are not at the same level seen last year. In 2011, fuel consumption decreased by an average of only 1.82%, compared to a 2.7% decrease in 2010.

Annual average fuel costs

2009

£1,184



2010

£1,298



2011

£1,458



¹ Confused.com/Towers Watson Car Insurance Price Index



However, this may reflect the mix of specific models used in the Cost of Motoring Index rather than any underlying slowing of the improvements achieved by manufacturers. It is therefore likely that further significant improvements in fuel economy will be achieved as new models replace those included in the current index.

The price of fuel ended 2010 at around 122.0p/litre. However, prices quickly increased in the new year as a result of the 20% rate of VAT being introduced, and a scheduled fuel duty increase coming into force. Together, these added around 6p/litre to the forecourt price.

Prices continued to rise steeply throughout Spring and into early Summer, despite a 1p cut in fuel duty announced by the Chancellor during the Budget. All-time record highs were finally reached in May, when

the average price of petrol surged to 137.4p/litre and diesel reached over 142.0p/litre.

Throughout the Summer and into Autumn, there was a slight fall in the price of fuel at the pumps, though it has started to creep up again in October. Across most of 2011, the price of oil has fluctuated between \$105 - \$125/barrel, still far below the record high of \$145/barrel set in 2008.

Looking ahead, motorists are in for more price rises as a result of two further planned increases in fuel duty in 2012. The first increase in January will be 3.02p a litre followed by another inflationary rise in August. These continued increases in duty are one of the reasons why RAC is supporting the Fair Fuel UK campaign which is trying to get a fair deal for drivers.

1.0 The Cost of Motoring in 2011

Sharp uprise in the cost of depreciation

The cost of depreciation rose sharply in 2011. Owners of new cars now face depreciation costs of £3,582, a 16.7% rise on last year, and three times the 5.2% rise in depreciation from 2009 to 2010.

One of the reasons behind this large increase is that the price of buying new cars from the forecourt has risen 13.4% in 2011. Manufacturers themselves have increased the price of their cars by only 4.4%, with the rest of the increase a result of car dealers reducing discounts. The picture for car owners would likely be worse, if not for a 2.7% increase in the long-term residual value of new cars. During the recession, sales of new cars fell dramatically. Over the medium term, this will have the knock-on effect of producing a shortage in the availability of used cars for sale, which will push up their long-term value.

What is depreciation?

The cost of depreciation is the amount that the value of a car decreases each year. This reflects the difference between the cost of buying a car, and what it would be worth if sold to another person one year later.

For example, if a car was bought for £10,000 in 2010, and the cost of depreciation over one year was 10%, this would mean the value of the car decreased by £1,000.

Maintenance costs rising

The cost of service, maintenance and repair also rose in 2011 by 8.8% (£38). This has been caused in part by the increase in VAT as well as rises in the cost of labour and spare parts.



2.0 What it costs to drive my car

The 2011 Index again provides a breakdown of the cost of motoring dependent on the type and size of car driven. This covers four car sectors: small cars, family hatchbacks, larger family cars and people carriers.

As in previous years, there are still large variations in the cost of running different sizes of car. For motorists who own a small car, such as a Toyota Yaris or Citroen C3, the annual cost of motoring stands at £4,782 in 2011. This is £1,907 (28.5%) cheaper than the overall 2011 average.

By contrast, those with large family cars such as a Vauxhall Insignia or Peugeot 406 are paying £1,247 (18.6%) more per year than the average. Owners of people carriers, such as a Ford Galaxy, are likewise paying far more than drivers with a smaller car.

While the overall cost of large family cars remains substantially higher, their relative cost compared to small cars has also increased this year. In 2011, large family cars are 65.9% more expensive to own and run than small

cars, compared to only 46.8% more expensive in 2010.

Why the difference?

The cost of fuel and depreciation are the most significant contributors to the higher cost of owning and running a large family car. Drivers of these vehicles, such as a Ford Mondeo or Vauxhall Insignia, are paying an average of £659 or 49.3% more in fuel costs in 2011 than drivers of small cars.

At the same time, the resale value of larger vehicles falls quicker – the average cost of depreciation for owners of people carriers is £4,494 in 2011. This is double the cost of depreciation for small cars, and £920 more than for family hatchbacks. The faster fall in value for larger cars is a result of the declining demand for these models. In the current economic climate drivers are increasingly choosing smaller cars. This is creating a surplus of larger vehicles, with the knock-on effect that their value falls quicker.

For owners of large family cars, the cost of service, maintenance and repair is also higher. It costs an average of £499 for maintenance of these vehicles in 2011, compared to just £367 for small cars, £433 for family hatchbacks and £446 for people carriers. A key reason for the higher cost of servicing for larger cars is that the tyres on these vehicles tend to be larger, and therefore more expensive.

	overall cost p/mile	overall cost	cost compared to 2011 average (% age)	cost compared to 2011 average (£)
small car (e.g. Vauxhall Corsa)	£39.85	£4,782	-39.89	£1,907
				
family hatchback (e.g. VW Golf)	£54.24	£6,509	-2.77	£180
				
large family car (e.g. Peugeot 407)	£66.13	£7,936	18.64	£1,247
				
people carrier (e.g. Ford Galaxy)	£66.45	£7,974	19.20	£1,285
				

The Cost of Low Carbon Motoring

With the growth in the number of hybrid and alternative fuel cars now available, the Index includes the Cost of Low Carbon Motoring for the first time this year. This is based on a pool of 9 of the most common vehicles in this sector, including the Toyota Prius, Honda Jazz Hybrid and the all-electric Nissan Leaf.

The average annual cost of owning and running a hybrid or electric car is £6,355. This is £334 or 4.99% cheaper than the average cost for a traditional petrol or diesel car. Stripping out depreciation and the cost of car finance, the pure running costs for hybrid vehicles are £2,264. This is 17.47% or £481 cheaper than for new conventional cars and is largely a result of the reduced amount of petrol or diesel that these cars consume.

3.0 The cost of motoring for used cars

The popularity of buying second hand rather than off the forecourt remains high. With many motorists still choosing to do this, the Index again provides a Cost of Used Car Motoring this year.

This is based on the costs for cars that are three years old with 36,000 miles on the clock.

Compared to new cars it costs £1,965 or 29.4% less to own and run a used car in 2011. This gap has widened slightly from 2010, when used cars were 28.8% cheaper to own and run.

Why the difference in costs between new and used?

There are several reasons for the difference in costs, however depreciation remains the main factor as the drop in the value of vehicles lessens as they get older. The annual cost of depreciation for used cars is £1,286, far lower than the £3,582 it costs for new cars. However, the cost of depreciation for used cars increased by 23.8% in 2011, compared to only a 16.7% increase for new cars.

The larger increase for used cars is a knock-on effect of large fluctuations in

the price of used cars in recent years. In 2010, the cost of depreciation for used cars actually fell 6.9%. With the market for used cars having returned to normal, that 6.9% fall has now been reversed, meaning a steeper rise in depreciation than for new cars.

When depreciation and the cost of finance are stripped out, used cars are £361 more expensive to run in 2011 than new cars. The main reason for this is the higher cost of maintenance for used cars, which typically require more work for wear and tear after several years on the road.

It costs an average of £713 for service and maintenance for used cars in 2011, which is £241 or 50.9% more expensive than for new cars. The cost of fuel is also lower for new cars, which benefit from advances in fuel economy.

Overall costs – used and new comparison

	New cars 2011	Used cars 2011
fuel	£1458	£1556
insurance	£551	£570
maintenance	£472	£713
vehicle excise duty	£111	£119
rac membership	£149	£145
depreciation	£3582	£1286
finance	£366	£334
total	£6,689	£4,724

Price of used cars and depreciation of used cars 2008 – 2011

Year	Price of average car	Cost of depreciation for average used car
2009	£7,008	£1,211
2010	£6,527	£1,039
2011	£7,351	£1,286



4.0 The cost of commercial motoring (under 3.5 tonnes)

For the past two years, the Index has tracked the cost of motoring for light commercial vehicles (LCVs) as well as cars. These costs are based on new vehicles being used for 20,000 miles per year, examined over a three year period.

The average annual cost for LCVs in 2011 is £8,928 or 44.64p/mile. This figure represents a small increase from last year of £69 or just 0.78%.

However, this increase would have been larger if it hadn't been for a significant fall in the cost of depreciation for LCVs. The cost of depreciation has fallen by £415 or 12.17% in 2011. This is a result of prices set by manufacturers for new vans falling by 8.23% and a 7.05% improvement in the long-term value of LCVs.

When depreciation and finance are removed, the day-to-day running costs for LCVs have increased by 10.90% or £525 in 2011. As with cars, the cost of fuel (up 12.7%), insurance (up 11.9%) and maintenance (up 4.7%) have all been major drivers of this increase and for similar reasons.

As in previous years, large vans and pick-up trucks continue to be the most expensive LCVs to operate, with these vehicles costing around £10,000 to own and run.

Overall costs for commercial vehicles

	2011 cost per year	2010 cost per year	% change
fuel	£3546	£3149	12.65
insurance	£791	£707	11.89
maintenance	£707	£675	4.70
vehicle excise duty	£148	£143	3.49
rac membership	£149	£143	1.39
depreciation	£2997	£3412	-12.17
finance	£590	£630	-6.42
total	£8,928	£8,859	0.78



5.0 Cutting back on car usage – how high motoring costs are affecting drivers

The 2011 RAC Report on Motoring revealed the impact that the continuing high costs of motoring, and fuel in particular, are having on drivers. The 23rd annual report found that the cost of motoring had risen to become drivers' number one concern this year, up from 4th in 2010.

The report also found that:

57% of drivers said they have cut down the number of short journeys they make by car

47% said they have cut down on the number of long journeys they make by car

69% of rural motorists and 30% of urban motorists said they have no other viable choice except their car for commuting to work, despite the high cost of fuel

One third of drivers living in the countryside said they would have to give up visiting friends and relatives if the cost of fuel continued to rise

24% of motorists said they would have to give up transporting their children to school and social activities if the cost of fuel keeps rising. 9% said they have already given this up



* 2011 RAC Report on Motoring : In total, 1,002 British motorists were surveyed (i.e. those who hold a current driving licence and drive at least once a month). The survey was conducted in February and March 2011, with the questionnaire taking around 20 minutes to complete.



5.0 Cutting back on car usage – how high motoring costs are affecting drivers

While increases in the cost of motoring can't be avoided, they can be mitigated by following some simple money-saving motoring tips. These include:

Drive smoothly and at an appropriate speed to save on fuel

Check the road ahead and anticipate traffic in order to avoid sharp braking and accelerating. This can save up to 15% on fuel costs. Stick to the speed limits too – slowing down by 10mph saves 40p on fuel for every 10 miles.

Maintain your car to make savings in the long run

Check the tyre pressures regularly – under-inflated tyres can increase fuel consumption by up to 2%. Rectify small defects on your car promptly, to prevent further deterioration. Also keep the service history up to date as this will be invaluable if you want to sell the car. Finally, wash and wax the car regularly to prevent rust from developing on the bodywork.

Shop around and plan ahead

Use price comparison websites such as petrolprices.com to find the cheapest fuel where you live. Plan your route before you leave to avoid getting lost by using a site such as rac.co.uk/web/routeplanner. You can download RAC Traffic and Traffic Plus mobile phone applications which give the most up-to-date traffic data available. Also, tune into the local radio station for travel updates.

Think about your car use

Do you really need to use your car? If your journey is short, consider using alternative options such as walking, taking public transport, or riding a bicycle.

Look after your car

You can help keep the cost of depreciation down by keeping your car well maintained and the service history up to date. Also if you're considering buying a car do some research into the resale value.

Think of revs as £ signs

The more you rev the more it will cost you.



6.0 Research methodology

Suppliers & sources

The research for the 2011 Cost of Motoring Index was carried out by the following companies for RAC.

organisation	research supplied
Go Motoring Ltd	Data research, compilation, analysis and interpretation
CAP Motor Research Ltd	Vehicle selection, used car values and residual value forecasting
International Decision Systems	Service, maintenance and repair data
What Car Target prices www.comparecarsdirect.co.uk www.new-car-discount.com www.uk-car-discount.co.uk	On the road pricing for cars
www.vandiscount.co.uk Wilson's Van Centre	On the road pricing for commercial vehicles
www.petalprices.com	Petrol and diesel prices

The Cost of Motoring is based on a panel of 17 popular cars, bought as new. The resulting figures are combined and an average taken, which is weighted according to the number of each car registered in the UK, to produce the overall cost of motoring.

Calculations relating to the cost of motoring incorporate the assumptions, information and sources detailed below. Throughout the report, the new car analysis has an assumed annual

mileage of 12,000 miles, the used car analysis is based on a three year old car with 36,000 miles on the clock and the light commercial vehicle analysis is based on three years and 20,000 miles per annum.

NB. Actual annual mileages vary year to year according to figures from the Department for Transport, however the Cost of Motoring retains the same figure of 12,000 miles in order to ensure an accurate comparison year-on-year.

Definition of costs

1. Depreciation

This is the amount by which the vehicle decreases in value each year. It has been calculated by taking the value of the equivalent used vehicle away from the price of the new vehicle, and averaged over three years to find the annual cost. New cars have been attributed an average of 12,000 miles per annum, light commercial vehicles 20,000 miles, while used cars assume a 3 year old vehicle with 36,000 miles on the clock.

2. Finance

A monthly Personal Contract Purchase (PCP) rental has been calculated based on a 10% deposit over three years, using the Average Transaction Target price and the Future Residual Value. Credit interest of 3% foregone on the deposit has been included in the calculation. A true interest rate of 8.1% has been used for new cars and 11.0% for used cars where lenders demand a higher yield.

A finance lease of 36 months with three payments in advance, followed by 35 monthly payments has been used for the light commercial vehicle calculations, based on a yield of 8.9%. The 2010 finance figures for LCVs have been revised following further analysis to more accurately reflect the repayment plans typically followed by owners of these vehicles.

3. Insurance

The annual insurance cost is based on a 45 year old male, insured as the only driver, with maximum No Claims Discount, parked on the road at NR2 3LD. It has been researched by taking the mean average figure from a panel of quotes provided by leading insurers on a price comparison website.

4. Servicing, maintenance and repair (SMR)

This is the servicing and repair cost, including wear and tear items, taken over three years at 12,000 miles per annum for new cars and 20,000 miles per annum for light commercial vehicles (LCVs). For used cars, the figure is based on vehicles with 36,000 miles on the clock and calculated over the three to six year age period. The 2010 Cost of Motoring figures for SMR have been replaced with revised figures in order to give a more accurate picture following a change in supplier of this data. The 2010 maintenance figures for LCVs have also been revised to remove the cost of VAT. This is in recognition that VAT on maintenance is recoverable.

5. Cost of fuel

The average petrol and diesel prices have been taken from www.petalprices.com. The combined fuel consumption figures have been provided by International Decision Systems, and the calculated annual mileage is again 12,000 for cars and 20,000 for commercial vehicles and business cars. The calculation is: Cost of fuel/litre * 4.561*12,000 (vans 20,000) miles/miles per gallon.

6. Cost of road tax

The Vehicle Excise Duty (Road Tax) depends on the level of CO2 emissions for each vehicle. This has been calculated projecting existing rates into the future.

7. Cost of RAC membership

RAC Membership cost is provided by the RAC, and includes roadside assistance, recovery and homestart. The figure of £145.00 is based on the standard 'personal membership' option which can also be used for most business vehicles, with the exception of taxis.

About RAC

With around seven million customers, RAC is one of the UK's most progressive motoring organisations, providing services for both private and business motorists. Whether it's roadside assistance, insurance, vehicle inspections and checks, legal services or up-to-the-minute traffic and travel information - RAC is able to meet drivers' needs.

RAC is committed to providing the very highest levels of service to its customers and ranked first for customer satisfaction by J.D. Power and Associates' UK Roadside Assistance Study 2006 to 2009. RAC was also the top-named breakdown organisation in the July 2009, January 2010, July 2010 and July 2011 half-yearly UK Customer Satisfaction Index from the Institute of Customer Service.

RAC was awarded a Which? Best Buy for Breakdown Cover in August 2010, and RAC Insurance has also been awarded the Best Overall Vehicle Insurance Provider 2010/11 by themoneypages.com.

RAC's news releases and a selection of images are available from the internet press centre at rac.co.uk/press-centre/

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