

What are solar park leases and what is the market for them?

With the government aiming to increase solar energy capacity fivefold by 2035, this farm diversification could provide an opportunity. **Debbie James** reports

Farmers who lease their land to a solar operator can typically earn an annual income of between £700/acre and £1,000/acre.

While it can be an attractive diversified income source, there are several considerations that need to be dealt with at the all-important negotiation phase to get the best agreement and to avoid pitfalls, advises land agent James Morton. First, farmers and landowners should consider the impacts on their farming operations of having a solar park in place.

"Can they continue to farm the land that is not taken up by the solar project, will they get paid for the land that is severed by the scheme and how does it impact on their agri-environment schemes and other diversification activities?" says Mr Morton, of Sworders.

Grid access and planning permission are the two main factors that influence whether or not a project will be successful, and while the market for solar energy projects is gaining pace, the biggest current constraint is grid

capacity, says Paul Hewett, chief executive officer of developer Belltown Power UK.

"There is quite a lot of available and suitable land, and planning isn't too much of a restriction compared with onshore wind, but pretty much all the grid capacity in the UK, at least in really viable areas, is now taken up."

There are many projects in development though. "Projects we are developing are based on changes that will be happening to the grid in the next 10-15 years," says Mr Hewett.

How much land is desirable for a solar project?

In England, 49.9MW – around 200 acres – is the standard scheme size due to a planning threshold, but many schemes have multiple landowners, so a farmer with a much smaller landholding could be part of a bigger project.

Mr Hewett says that his company has not found viable projects smaller than 20MW, which covers around 80 acres.

There are opportunities for smaller individ-



It is not unusual for a solar development to involve several landowners

BELLTOWN GROUP LTD

ual projects though, for example on sites with a private wire that can be directly connected to a very large user, as this allows the developer to remove the cost associated with transporting the energy through the grid.

What rents and other payments can I expect?

Rents are site-specific because they largely depend on the cost of connecting a solar project to the grid. The solar irradiance

potential of the site – often higher in coastal regions – and the scale of the project are also factors.

Annual rents of up to £1,200/acre are being paid for the best sites but they mostly range from £700/acre and £1,000/acre, and rent values are likely to increase amid soaring energy costs.

Some agreements also have clauses that increase payments made to the landowner if the site generates more revenue than had been expected.

The recent escalation in energy prices is a case in point. "If we are making more revenue from the site than we expect, the landowner gets a share of that," says Mr Hewett. Rent levels in most new agreements are linked to the Consumer Prices Index.

Owners of new sites can expect to receive some payments before a site is operational. In the first six months after an approach, a company will pay an exclusivity fee of around £10/acre to stop the landowner engaging with other developers.

Another £10/acre is paid for six months once the viability of the site is confirmed. The land can still be farmed in these stages.

An option fee of about £50/acre is typically paid during the consenting and developing stage, before the lease is signed. The developer will also pay all reasonable land agent and legal fees. The agreement should cover the decommissioning and removal of the equipment, with a bond put in place to protect the landowner against the developer going out of business.

Tax considerations

Land developed as a solar park is unlikely to qualify for agricultural property relief (APR) from inheritance tax (IHT), even with sheep grazing the land.

Accountant Peter Harker, a partner at Saffery Champness, says one of the main tests for APR is whether the land is being primarily occupied for the purposes of agriculture.

OUR PARTNER

Belltown Power recognises the massive changes facing farmers across the UK. Leasing land for solar will provide stability through this period of uncertainty.

Belltown has 1GW+ of unsubsidised renewable energy projects under development, each with a comprehensive and tailored Environmental Management Plan to protect and enhance local biodiversity and ecology.

Belltown engages in transparent, open and tailored consultations with farmers and landowners.

Communities, education and the environment are at the heart of everything we do.

Want to know more? Contact chall@belltownpower.com



Even when land on the site of the solar park has in some way been physically separated for grazing, an APR claim is not without the risk of a challenge by HMRC. However, there is potential to claim business property relief from IHT on the full market value of the land, not just its agricultural value.

Land values increase as the project moves forward. Initially these are based on agricultural values, but when deals are signed valuations increase significantly, so tax planning before the project progresses too far is key, Mr Harker advises. This can include getting the land into the correct ownership structure, which can take time.

"As a rule of thumb, there are potential tax costs associated with any change of land ownership, so ideally do that when the land values are low and not high," he says.

Another consideration is whether the solar park will be run as a trading or non-trading business. When land is leased for solar, it becomes a non-trading asset and that means losing access to a number of tax reliefs, principally income tax, IHT and capital gains tax.

"Some clients have found ways of funding the business themselves, buying the solar panels themselves, to stay on the right side of the trading camp," says Mr Harker. He also recommends getting advice on structuring deals in order to maximise VAT efficiency. ■

■ The panellists were speaking at a recent webinar hosted by *Farmers Weekly* and sponsored by Belltown Power. To listen to the full recording go to fwi.co.uk/solar

CASE STUDY: ASHCOMBE ESTATE, DEVON



Ashcombe Estate's solar development

RALPH RAYNER

A 70-acre solar park with 40 acres of panels was developed on the Ashcombe Estate in Devon in 2015.

The estate receives a base rent and a production capacity rent, which are equivalent to nine times the farm business tenancy rent value of the land. There is an option in the agreement to renew or reinstate the land after the 26-year lease expires.

Public relations

Ralph Rayner, managing director of the Ashcombe Estate, says managing public relations around a solar park development is important.

"As the custodians of the land or the landscape, we carry the can if things go wrong, it doesn't matter if there is a developer involved," he warns.

He had many one-to-one meetings with local councillors when he was seeking planning consent for the site.

There were issues during the development phase as a result of satnav errors by lorry drivers delivering equipment, but once the work was completed Mr Rayner says it was well-hidden. "Even its most ardent opponents couldn't find it," he says.

The park provides a "very good recurring revenue" for the estate. "And we don't have to do anything to achieve that," says Mr Rayner.

The operator also established a community fund, paying for projects including a new broadband system and a commercial kitchen for the village club.

Mr Rayner says hosting solar energy projects is "very important work" for farmers, given pressure on farm incomes and the country's power security.

"This is all farming, it's just a different kind of production," he says.