SAVVI Financial Hardship Guide

Suggested Financial Hardship Risk Factors

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SAVVI
Scalable Approach to Vulnerability via Interoperability

improvement service

Suggested financial hardship risk factors

What this resource is for

Financial hardship is rarely identifiable from a single characteristic or piece of information. Different circumstances may increase a person or household's risk, and several factors may occur together.

This resource provides examples of risk factors that may be relevant when developing a financial hardship initiative.

Use it during **FIND** to help:

- identify characteristics and circumstances associated with the vulnerability defined during PURPOSE;
- consider the evidence supporting those relationships;
- distinguish the underlying risk factor from the information used to represent it; and
- select a proportionate set of factors for cohort generation or prioritisation.

The examples are starting points rather than a recommended model. Risk factors should be selected according to the agreed purpose, population and support offer of the particular initiative.

1. Low income

Why it may matter

Low income reduces the financial resources available to meet essential household costs and is central to many forms of financial hardship and poverty.

Low income may be persistent or temporary and may arise from benefits, low earnings, reduced working hours, loss of employment or other changes in circumstances.

Possible ways it could be represented

Depending on the initiative, indicators might include:

- receipt of a means-tested benefit;
- receipt of Council Tax Reduction;
- a derived low-income indicator;
- earnings or income information where appropriately available; or
- eligibility for another form of means-tested support.

Important considerations

Receipt of a means-tested benefit does not establish that a household is currently unable to meet essential costs.

Conversely, households experiencing low income may not appear in benefits data because they are not eligible, have not claimed, or their circumstances are not represented in the available information.

Think carefully about whether the indicator represents low income, benefit receipt, or eligibility for a particular scheme. These are related but different concepts.

2. Debt and arrears

Why it may matter

Falling behind with essential financial commitments can indicate that financial pressure is already affecting a household.

Relevant arrears might include:

- Council Tax;
- rent;
- housing-related charges; or
- other debts where appropriate information is available.

Arrears may also provide a relatively timely indicator of a change in circumstances.

Possible ways it could be represented

Examples include:

- Council Tax arrears present;
- rent arrears present;
- recent movement into arrears;
- increasing arrears; or
- multiple forms of known arrears.

For many models, a minimised indicator such as qualifying arrears present: yes/no may be sufficient rather than the complete balance or payment history.

Important considerations

Arrears do not always result from financial hardship. Administrative error, disputes, payment arrangements or individual choices may also affect account status.

Some households experiencing serious hardship may have no arrears because they prioritise these payments while cutting expenditure elsewhere.

Arrears should therefore normally be interpreted as an indicator of possible financial pressure rather than proof of hardship.

3. Recent financial crisis

Why it may matter

Previous or recent need for emergency assistance may indicate that a household has limited capacity to absorb further financial shocks.

It may also provide a relatively current indication of financial pressure.

Possible ways it could be represented

Depending on locally available information:

- recent application for crisis support;
- recent receipt of crisis support;
- repeated applications for emergency assistance; or
- another recent interaction with an emergency financial support service.

A model may only need a simple indicator such as:

Crisis support received within the previous [defined period]: yes/no

rather than details of the original application.

Important considerations

Crisis-support records only represent people who approached the relevant service and met the applicable criteria.

Many people experiencing acute financial difficulty will not apply.

The reason for the original application may also matter when deciding whether the information is sufficiently relevant to the vulnerability being considered.

4. Housing-cost pressure

Why it may matter

Housing costs are a major component of household expenditure. A mismatch between housing costs and available income can increase the risk of financial hardship, debt, tenancy difficulties or homelessness.

Possible risk factors

These might include:

- rent arrears;
- a shortfall between eligible housing costs and housing support;
- reliance on additional housing-related financial assistance;
- high housing costs relative to available income; or
- other indications that housing costs are difficult to sustain.

Possible ways they could be represented

Depending on the initiative:

- rent arrears present;
- housing-cost shortfall present;
- receipt of relevant discretionary housing assistance; or
- another appropriately derived housing-pressure indicator.

Important considerations

Council-held housing information may cover only part of the local population. Council rent data, for example, tells you about council tenants rather than households in private rented, owner-occupied or other social housing.

Consider both the meaning of the indicator and who is absent from the source used to represent it.

5. High or unaffordable energy costs

Why it may matter

Energy costs can place substantial pressure on household finances, particularly where they interact with low income, poor energy efficiency, disability, health needs or larger household size.

Energy-related hardship may contribute to difficult choices between heating and other essentials.

Possible risk factors

These could include:

- low income combined with high expected energy costs;
- energy debt;
- difficulty maintaining adequate warmth;
- poor energy efficiency combined with financial vulnerability; or
- circumstances associated with unusually high energy requirements.

Possible ways they could be represented

Depending on what information is available:

- energy-debt indicator;
- property energy-efficiency information combined with other household indicators;
- receipt of energy-related support; or
- another derived fuel-poverty or energy-pressure indicator.

Important considerations

Property characteristics alone do not establish household financial circumstances.

Similarly, low income alone does not establish that a household is experiencing fuel poverty.

Where several components are required to represent the risk factor, be explicit about what the resulting indicator actually means.

6. Dependent children and larger families

Why it may matter

Children increase household costs, and larger families may face greater costs across food, clothing, housing, transport and childcare.

Household composition can therefore contribute to increased financial pressure when combined with low income or other vulnerabilities.

For child-poverty initiatives, the number and ages of children may also be relevant to the population the initiative is intended to support.

Possible ways it could be represented

Examples include:

- dependent child or children present;
- three or more dependent children;
- child below a defined age;
- number of dependent children; or
- another household-composition indicator relevant to the purpose.

Important considerations

Having children does not itself indicate financial hardship.

Household-composition characteristics are generally more useful as indicators of underlying vulnerability or as part of cumulative risk than as standalone evidence of current financial pressure.

Only use the level of detail required by the initiative. If the model needs to know whether three or more dependent children are present, it may not need detailed information about every child.

7. Single-parent household

Why it may matter

A household relying on one parent may have less flexibility to absorb changes in earnings or costs and may face particular childcare and employment constraints.

Single-parent families are also an important population when considering child poverty.

Possible ways it could be represented

Depending on available and appropriate information:

- one adult with dependent child or children;
- household-composition information indicating a single-parent household; or
- another appropriately derived household indicator.

Important considerations

Household composition can be difficult to establish reliably from administrative systems.

A billing or benefit record does not necessarily provide a complete representation of everyone living at a residence.

Where household structure is derived from several records, define clearly how Household has been constructed and test the quality of that approach.

Single parenthood indicates increased population-level risk; it does not establish an individual family's financial circumstances.

8. Disability, long-term illness or inability to work

Why it may matter

Disability or long-term illness may affect financial resilience through reduced ability to work, additional household costs or caring requirements.

The financial consequences vary considerably between people and households.

Possible risk factors

Depending on the agreed purpose, the underlying factor might be:

- household member unable to work;
- reduced capacity to work;
- additional costs associated with disability or illness;
- caring responsibilities arising from illness or disability; or
- a household combining low income with disability-related circumstances.

Possible ways they could be represented

Possible indicators might include:

- information indicating that a person is unable to work;
- receipt of a relevant benefit;
- another appropriately derived indicator of disability-related financial pressure.

Important considerations

Disability and benefit receipt are not interchangeable.

Receipt of a disability-related benefit may be a useful administrative indicator for a particular model, but it represents eligibility for that benefit rather than the full circumstances or financial needs of the person.

Health and some disability information may also constitute special category personal data and require additional governance consideration.

Only use information that is necessary for the specific risk factor and agreed purpose.

9. Unemployment, reduced employment or insecure earnings

Why it may matter

Loss of employment or a reduction in earnings can cause a rapid change in household finances.

Financial hardship can also affect people who are working, particularly where earnings are low, hours fluctuate or employment is insecure.

Possible risk factors

These might include:

- unemployment;
- recent loss of employment;
- reduced working hours;
- low earnings;
- insecure or variable employment; or
- inability to increase earnings because of other barriers.

Possible ways they could be represented

The available indicators will depend heavily on the information accessible to the initiative and may include:

- benefit information relating to employment circumstances;
- appropriately available earnings information;
- employability-service information; or
- another derived employment-status indicator.

Important considerations

Employment status alone is a poor measure of financial hardship.

Being employed does not establish financial security, while unemployment does not establish unmet financial need.

Consider how employment circumstances interact with income, household composition and costs.

10. Caring responsibilities

Why it may matter

Caring responsibilities can affect both household costs and the ability to enter, increase or sustain employment.

They may also make households less financially resilient when circumstances change.

Possible ways they could be represented

Depending on the initiative:

- known caring responsibility;
- receipt of relevant carer-related support;
- household composition combined with other information; or
- another appropriately justified indicator.

Important considerations

Administrative information is unlikely to identify all unpaid carers.

Receipt of a carer-related benefit should not automatically be treated as equivalent to the underlying risk factor, since many carers may not receive it.

Consider whether caring adds useful information to the model and whether it is relevant to the support that can actually be offered.

11. Childcare barriers

Why it may matter

The cost or availability of childcare can limit a parent's ability to enter employment, increase working hours, undertake training or improve household income.

It may be particularly relevant to initiatives focused on child poverty and employability.

Possible ways it could be represented

Childcare barriers may be difficult to observe directly in administrative data.

Potential indicators might involve:

- household composition;
- age of children;
- employment circumstances;
- information already collected through employability or family services; or
- direct assessment.

Important considerations

Do not assume that having young children automatically means someone faces a childcare barrier.

This is an example of a potentially important risk factor for which suitable administrative information may not exist.

Recognising that gap is preferable to substituting a weak proxy simply because it is available.

12. Rurality and additional costs

Why it may matter

Some households in rural and remote areas may face additional costs or barriers associated with:

- transport;
- fuel and energy;
- access to childcare;
- access to employment;
- digital connectivity; and
- physical access to services.

These circumstances may compound other forms of financial vulnerability.

Possible ways it could be represented

Depending on the agreed purpose:

- geographic classification of residence;
- travel time or accessibility measures;
- distance from relevant services;
- availability of public transport; or
- another area-based indicator used alongside household-level factors.

Important considerations

An area characteristic applies to a place rather than directly describing every person or household living there.

Rural location should therefore not be treated as proof that an individual household faces additional costs.

Where geographic information is used, be clear about the mechanism through which it is expected to affect financial hardship and whether that relationship is relevant to the particular initiative.

13. Recent change in circumstances

Why it may matter

Financial hardship may emerge quickly following a change in household circumstances rather than through persistent low income.

Potential changes include:

- loss of employment;
- reduction in earnings;
- illness;
- new caring responsibilities;
- relationship breakdown;
- change in household composition;
- loss or change of benefit entitlement; or
- an unexpected increase in essential costs.

A recent change can therefore sometimes provide a more timely indication of emerging risk than a relatively static demographic characteristic.

Possible ways it could be represented

This depends on the information available and might involve:

- recent change in benefit circumstances;
- recent movement into arrears;
- recent application for crisis assistance;
- change in household composition; or
- another appropriately recorded change event.

Important considerations

Change information can be difficult to derive reliably where systems contain only current status rather than history.

The significance of a change also depends on context. A change should therefore be included only where there is a defensible relationship with the vulnerability and it contributes useful information to the model.

Choosing risk factors for your initiative

Do not treat this resource as a checklist. For each proposed risk factor, ask:

- **Why does it matter?** What evidence or practitioner knowledge links it to the vulnerability or need?
- **Does it help this initiative?** Would knowing about this factor meaningfully affect cohort generation, prioritisation or the offer of support?
- **Can it be represented appropriately?** Is there sufficiently relevant, reliable and timely information that could indicate its presence?
- **Does it add something?** Does it provide useful information alongside the other factors already selected?
- **Are the consequences proportionate?** How will the resulting risk classification be used?

The evidence required should reflect the consequences of the intervention. Using an indicator to prioritise an optional offer of financial advice is different from using information to make a consequential decision affecting someone's access to a service.