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RESEARCH ANALYSIS NO. 4

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# Victoria's cladding program: The role of owners corporations



## **Aboriginal acknowledgement**

Cladding Safety Victoria respectfully acknowledges the Traditional Owners and custodians of the land and water upon which we rely. We pay our respects to their Elders past, present and emerging. We recognise and value the ongoing contribution of Aboriginal people and communities to Victorian life. We embrace the spirit of reconciliation, working towards equality of outcomes and an equal voice.

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# Executive Summary

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**In delivering the Cladding Rectification Program, Cladding Safety Victoria has gained invaluable insights into the lived experiences of building owners involved in the program and the challenges they faced to rectify the combustible cladding on their buildings.**

Over six years, CSV has had more than 70,000 interactions with almost 1,700 owners corporations (OC). In that time, CSV has frequently seen first-hand how complicated it can be for active and informed owners to work through a complex building regulatory system for strata buildings to get access to the advice and guidance they require to resolve problems at their building.

Informed, transparent and effective management of apartment buildings is critical to building safety, maintenance, the protection of owners interests and the rights of residents. Managing apartment buildings is inherently difficult due to technical complexity, legal requirements, financial strains and human behaviour.

Other challenges arise due to complicated governance and resourcing arrangements associated with shared ownership and the management of common property for strata buildings. The magnitude of these challenges can also change according to a range of building characteristics such as building height, the number of occupants, building location, how the building is used and the composition of owners and tenants. These challenges leave many owners feeling overwhelmed and frustrated by their inability to resolve problems and can undermine the effective operation of an OC.

Through insights gleaned from both CSV's tailored engagement and support activities and a survey of owners and owners corporation managers (OCM) involved in the cladding rectification program, the organisation has observed several key themes that determine the ability of OCs to discharge their duties to effectively manage and maintain a building.

## **OCs feel ill-equipped to address issues affecting their building.**

- Less than 30 per cent of survey respondents felt that their OC is equipped to deal with complex building problems like cladding. This result was consistent across both owners and OCMs.
- 58 per cent of respondents consider that it is challenging to deal with problems through an OC, and an additional 15 per cent indicated that the model was not working for their OC.
- CSV encountered delays in the building rectification process due to a lack of experience and understanding by members of OCs.
- CSV observed considerable confusion regarding the roles of the Municipal Building Surveyor (MBS), Private Building Surveyor (PBS) and the Building and Plumbing Commission (BPC) (previously called the Victorian Building Authority).

### **When owners are actively engaged, they can get things done.**

- When owners are positively engaged in the management of their building, they are better informed about the nature of the problems facing their building.
- Owners who live in the building have a greater understanding of the day-to-day impact of building maintenance and safety considerations.
- CSV encountered many buildings where owners were disengaged – creating a void where building problems are ignored, overlooked or avoided.

### **OC dynamics are complex and fluid.**

- CSV encountered OCs that could not be assisted due to the membership and dynamic of the OC committee.
- Turnover in the membership of the OC committee presented challenges to the rectification process.
- Concern about obtaining agreement among owners to resolve the combustible cladding problem was raised as a concern by 30 per cent of respondents, including both owners and OCMs.
- OCs can be dominated by the developer or original builder who deliberately block and obstruct owners from resolving problems at their building.
- CSV identified a direct relationship between builders and development companies in at least 38 per cent of over 850 buildings reviewed, with the true figure of related party transactions likely to be much higher than that.

### **OCMs play a pivotal role in supporting OCs.**

- CSV found the capability of OCMs can vary dramatically with a commensurate impact on building outcomes.
- Different OCM operating models established to manage the building's day-to-day activities can have an impact on the quality of services.
- Some strata companies that were prone to staff turnover resulted in some buildings not having continuity of management through the program.

- OCMs can also be conflicted by their relationship with the builder or developer to the detriment of owners.
- OCMs often are agents of insurers of buildings.

The implications of a poorly-performing OC can lead to a lack of understanding for owners and residents on what to do to address issues affecting their safety and quality of living. This can exacerbate owner ignorance and apathy in addressing issues that affect them directly, which can mean that decisions are made that may not always be in their best interest.

An OC not operating effectively can result in poor building safety and maintenance outcomes, including inadequate essential safety measures required to ensure residents are not exposed to fire and other safety-related risks. This may also mean failing to address building defects such as defective balconies and water-ingress issues in a timely manner; this can lead to further building degradation and the risk of insurance coverage expiring before the problems can be fixed.

### **Opportunities for consideration**

Based on CSV's observed insights, there are opportunities to improve the way that strata buildings are regulated and managed to drive better outcomes for building safety and compliance as the sector continues to grow and diversify. Consideration could be given to assisting OCs to fulfil their functions more effectively through the development of customised information and tools, the establishment of a centralised database of OCs to improve the transparency around some important aspects of buildings, strengthening conflict of interest obligations by OC members and OCM companies, and providing greater scrutiny by Government on the level of builder/developer involvement in OCs and ways to limit their influence in controlling outcomes that may not always be in the interests of owners.

# 1. Background

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## 1.1 About the Cladding Rectification Program

Cladding Safety Victoria (CSV) is responsible for delivering the Victorian Government's \$600 million Cladding Rectification Program (CRP). As of June 2025, CSV has funded cladding rectification work for more than 440 privately-owned apartment buildings affected by combustible cladding, with more than 400 private rectification projects now complete. This means that approximately 20,000 homes or 38,000 Victorians are now safe from the dangers of combustible cladding. CSV has also supported Government departments and agencies to rectify 130 public buildings.

The CRP was established to support apartment owners to address the risk of fire spread through the presence of combustible cladding on buildings. In most cases, owners were not responsible for the installation of the cladding on their building nor aware of the threat it posed.

Understanding the scope of the combustible cladding problem in Victoria was a problem from the outset with insufficient information available to regulatory agencies about strata buildings in the built environment. The scope of the CRP was initially estimated at 500 buildings on announcement and expanded throughout the delivery of the program that culminated in CSV undertaking a large-scale assessment of approximately 4,100 class 2 buildings in Victoria.

In delivering the CRP, CSV encountered many of the complexities and challenges that can hinder the effective operation of OCs. This research paper provides an insight into the lived experience of building owners within CSV's CRP and the challenges they faced to rectify the combustible cladding.

## 2. Terminology, methodology and limitations

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The purpose of this report is to share insights into CSV's experience of engaging with OCs and OCMs to address the combustible cladding risk at their building during the delivery of the Cladding Rectification Program (CRP).

To prepare this report, CSV drew upon extensive engagement data captured from the delivery of the CRP and the experience of stakeholder engagement staff throughout the delivery of the program.

**This involved:**

- Structured interviews with CSV's team of Senior Customer Liaison Officers (CLO) who were responsible for providing a case management service to owners. CLOs provided support to help owners navigate a complex range of issues to make their buildings safer; they also provided important fire safety information to OCs and residents of buildings in the program.
- Reviewing data in the Customer Relationship Management System which captures all interactions between CSV and the owners and OCMs of buildings in the program. This data provides insights into the quantum of engagement activity as well as the specific problems encountered.
- Survey results from the annual satisfaction survey conducted with owners throughout the delivery of the program.

In addition, in 2025 CSV circulated a tailored survey to more than 900 owners, OCMs and other building representatives asking a range of questions about their concerns and experiences when they became aware of combustible cladding at their building, their perception of building regulation agencies and their viewpoint of the support they received from various participants in the building rectification process, including CSV. The findings of this survey also helped shape the information in this report.



# 3. Context

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### 3.1 The risk posed by combustible cladding on high rise buildings in Victoria

In 2017, following the tragic high-rise cladding fire which broke out in the 24-storey Grenfell Tower block of flats in the UK where 72 people died and more than 70 were injured, the Victorian Government recognised that combustible cladding posed serious risks to the community that required government intervention.

There had been numerous apartment building fires around the world involving combustible cladding. Many of these fires had caused fatalities, the most notable being Grenfell; however, in Victoria there had also been two serious fires involving combustible cladding; the Lacrosse fire in Docklands in 2014 and the Neo200 fire on Spencer Street in 2019. Without action, there was a risk of a catastrophic fire occurring in Victoria.

In making its case for intervention, the Victorian Government recognised the complexities involved in cladding rectification works that OCs and owners would need to work through. Without support, the urgency of cladding rectification work may not have been understood. Some OCs and owners may have been unwilling or unable to manage complex building works associated with cladding rectification.

There were also concerns that rectification would be delayed by extensive litigation involving claims by OCs and owners against builders with cross-litigation against other building practitioners (building surveyors, fire engineers and architects).<sup>1</sup>

The problem was exacerbated by the lack of clarity about who is accountable for the combustible cladding, a refusal from those in the building industry to return and fix the problem without payment, and the fact that the costs for rectification were being pushed onto the owners. Many owners were confronted with the combustible cladding problem through no fault of their own with limited legal recourse available to many owners where builders were no longer practicing or where statutory (domestic building) insurance schemes did not apply.

In the absence of State intervention, widespread litigation against building practitioners was likely to lead to an increase in insurance premiums and a threat of withdrawal of professional indemnity insurance for building practitioners, which would adversely affect property prices of impacted buildings.

Government also identified a real risk of an increased potential for conflict between local government and OCs in the absence of a clear pathway to resolve the combustible cladding problem, which would likely lead to delays because of disputes over responsibilities.

Owners in buildings impacted by combustible cladding were faced with the challenge of working within the OC to procure technically complex building works and source funds to pay for rectification. For many owners and residents, this situation would cause extensive emotional and financial stress.

In acknowledging the difficulties that owners and OCs faced in addressing the combustible cladding problem without assistance, the Victorian Government announced the establishment of CSV to support owners and residents through the rectification process.

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<sup>1</sup> The Lacrosse case was not resolved until seven years after the fire. It was not until May 2021 that the Victorian Court of Appeal handed down its decision regarding apportionment of liability between the building surveyor, the fire engineering consultant, the architect and the individual who caused the 2014 Lacrosse Tower fire.

### 3.2 Cladding risk assessment and the development of a tailored cladding rectification process

CSV is a statutory agency established under the *Cladding Safety Victoria Act 2020* whose role includes providing a systematic approach to the assessment of cladding risk and its treatment on privately owned apartment buildings three storeys and more in height.

CSV designed a delivery model to provide information and advice to support owners and OCs faced with the problem of combustible cladding on their building.

Table 1 outlines the 10-step delivery model for each building's journey under CSV management from the time a building is first referred to CSV, to the provision of advice and assistance according to risk, through to the end of the 12-month defects liability period after which a building has achieved practical completion for cladding removal work.

During the referral and registration process, CSV gathered a range of information about the building from owners and referral authorities. CSV established due diligence processes to manage access to the building to conduct testing as required to determine what cladding was on the building and the extent of the problem for each building.

To secure funding from CSV, the OC was required to sign a funding agreement that set out funding arrangements and payment conditions.<sup>2</sup> For each rectification project, CSV provided coordination, oversight and quality assurance through the engagement of a range of program partners.

For example, CSV engaged a panel of Independent Project Managers (IPM) to coordinate, monitor and oversee construction works delivery to ensure compliance with the contract between the owners and the builder as well as the funding agreement between CSV and the individual OC for each project.

Another good example is the Clerk of Works Panel that CSV established to undertake routine site inspections throughout the construction phase to ensure safe work site practices and quality workmanship throughout the period of construction.<sup>3</sup> Through these processes, CSV was able to embed expert capability and ensure quality outcomes in practitioner selection and on-site safety and workmanship. CSV's role in engaging and coordinating such stakeholders alleviated owners and OCs of the challenges associated with project administration and logistics of complex building projects.

2 To be eligible for funding, an OC must be responsible for a residential building that has been:

- assessed as having combustible cladding and deemed to be of higher risk;
- referred to CSV by either the Building and Plumbing Commission (previously the Victorian Building Authority) or a Municipal Building Surveyor; and
- prioritised for rectification by CSV.

It does not extend to funding a sole owner of a building for the rectification of that building.

3 CSV Research Analysis No. 3, Clerk of Works: Promoting quality and safety in construction, 2025.

**Table 1. 10-step delivery model**

| Step  | Description  |
|---|--|
| <b>1. Referral</b>                                | Buildings are referred to CSV in accordance with an approved referral process. Upon receipt of this information, CSV undertakes a quality assurance and data validation that incorporates consideration of cost reduction through legal and insurance recovery.  |
| <b>2. OC registration</b>                         | CSV meets with each OC and assigns a CLO. Owners or OCs are required to register their buildings with CSV to ensure their building is formally signed up to the program. This will be led by the CLO and must be completed prior to commencement of due diligence.   |
| <b>3. Due Diligence Report</b>                    | CSV organises site inspections and, if necessary, sample test materials. A Due Diligence Report is prepared identifying a preferred building pathway (full replacement or partial replacement). The Due Diligence Report will include a supporting cost plan and is submitted to the CSV Program Manager.                                  |
| <b>4. Internal approval processes</b>             | An expert committee approves buildings to be included into the program delivery phase.   |
| <b>5. IPM appointment</b>                         | The IPM will be procured directly by CSV to facilitate the project's delivery until final completion. In particular, the IPM will procure the design team and the Design and Construct (D&C) Contractor.   |
| <b>6. Execute Funding Agreement with OC</b>       | To secure funding from CSV, the OC is required to sign a Funding Agreement. The Funding Agreement sets out funding arrangements and payment conditions. The final Funding Agreement will be executed following the tender process for a D&C Contractor.  |
| <b>7. Design and Construct contract execution</b> | All construction works will be delivered under a D&C procurement model using AS4300. The IPM will facilitate the D&C tender process on behalf of the OC. The IPM will prepare a Tender Recommendation Report, execution of the OC Funding Agreement will occur and the OC will directly engage the D&C Contractor.                         |
| <b>8. Contract management and administration</b>  | All construction contracts will be administered by a nominated Superintendent, directly engaged by CSV. Contracts will be administered in accordance with the contract terms. The management of activities will be delivered in accordance with the CSV Contract Administration Manual. Scope, time and cost changes require CSV approval. |
| <b>9. Contract completion</b>                     | Subject to the D&C Contractor achieving all its contractual obligations at the end of the Defects and Liability Period where all defects must be rectified to achieve final completion, the Superintendent will grant contract completion and advise the OC of release of final bank guarantee.  |
| <b>10. Program acquittal</b>                      | Once a project is contractually completed, it will then be acquitted from the Cladding Rectification Program.  |

### 3.3 Communicating and engaging with owners and OCs

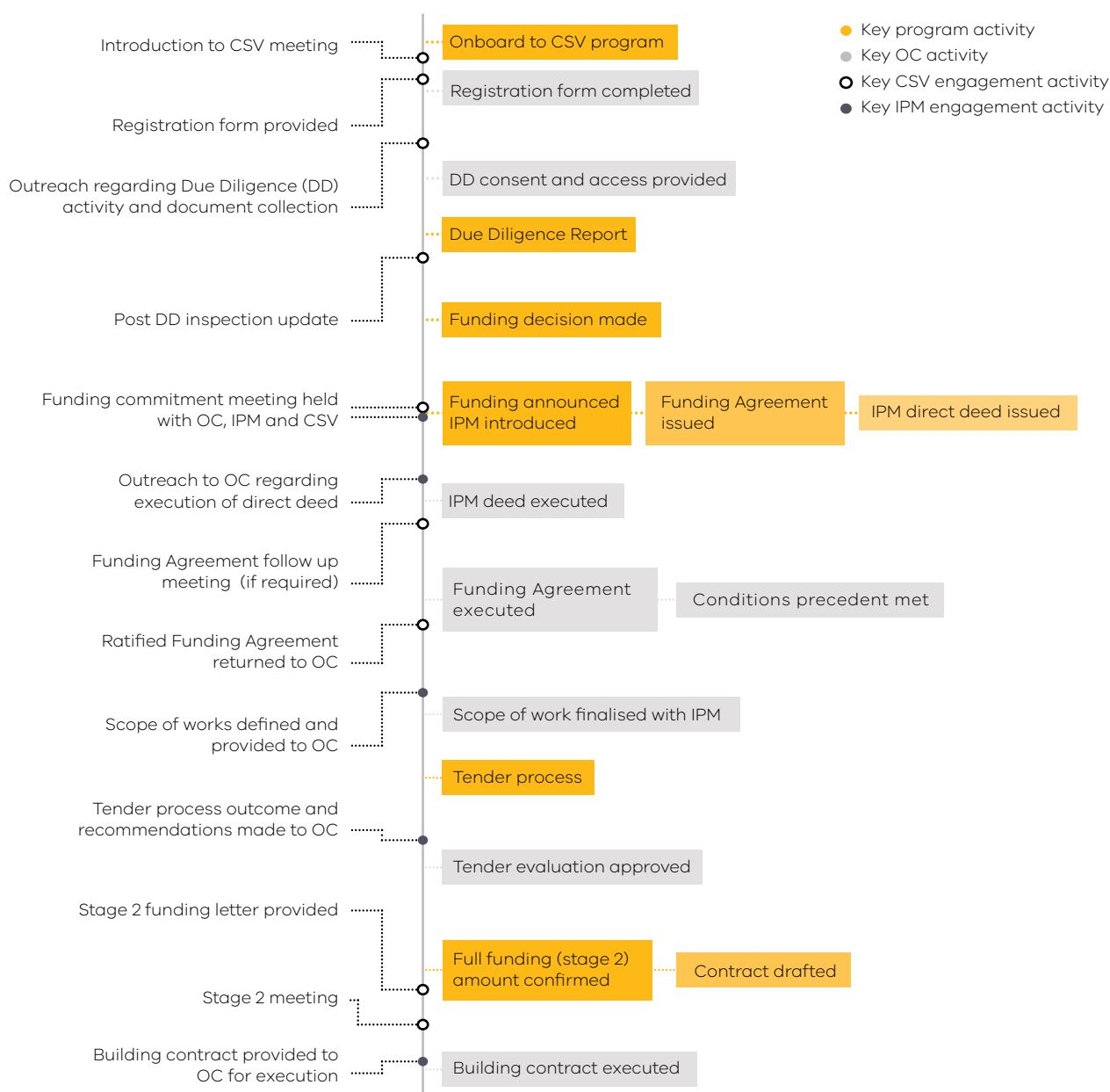
CSV's delivery model is underpinned by proactive engagement that targets owners and OCs. CSV adopted a case management model of service, where each OC has an assigned CLO who they can contact directly.

CLOs help drive progress, provide clarification about CSV's policies and processes, and provide customer care and support to help minimise the

stress of living with and removing combustible cladding. Nevertheless, decision-making responsibility remains with the OC.

Figure 1 provides a high-level summary of key contact points and tasks when undergoing a full cladding removal rectification project under CSV's delivery model. OCs can expect to hear from both the IPM and their CLO regularly once a funding decision has been made by CSV.

**Figure 1. Key contact points with building owners through the delivery process**



## 4. Key findings

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## 4.1 Observations of OCs

OCs have an important statutory function in the management of Class 2 buildings. The *Owners Corporation Act 2006* states that OCs must, among other things, 'manage and administer the common property' and 'repair and maintain the common property'.<sup>4</sup>

CSV has communicated directly with almost 1,700 OCs over six years and the buildings concerned have varied enormously in size and complexity. The smallest consisted of just two apartments while the largest was more than 800. Just as all buildings are different, the level of engagement, competence, sophistication and resources of OCs are different too. As a result, the ability of OCs to discharge their duties varied dramatically.

**Table 2. Factors that influence the performance of an OC**

| Factors that contribute to an effective OC                      | Factors that undermine an effective OC                       |
|---|--|
| Owners positively engaged in the management of their building   | Inoperative OCs  |
| Owner-occupiers committed to building safety and maintenance    | Owner ignorance and apathy                                   |
| Established decision-making processes                           | Inexperienced/incompetent OCs                                |
| Owners bringing professional expertise to their voluntary roles | Deadlocked and obstructed OCs                                |
|   | Volatility and lack of continuity in OC committee membership |

<sup>4</sup> Part 2, Division 1, Section 4(a) and 4(b)(i) of the *Owners Corporation Act 2006*.



#### **4.1.1 Factors that contribute to an effective OC**

CSV engaged with many OCs, supporting them through the cladding rectification process. Through this process, CSV observed many factors that influence how effectively a building is managed and maintained. In its interactions with OCs, CSV observed the following positive factors that contributed to the successful remediation of cladding.

##### ***Owners positively engaged in the management of their building***

When owners are positively engaged in the management of their building, they are better informed about the nature of the problems facing their building. CSV observed that OC meetings functioned better when there were owners in attendance who were well-informed and well-prepared for the meetings. This enabled owners to actively participate in the conversations during the meeting and ensured they had the information required to make the decisions necessary to work towards resolving issues. It also allowed owners to provide clearer and more informed direction to their OCM. These owners were better placed to provide prompt responses to communications from CSV in between meetings, and more actively communicated with other owners and tenants in their buildings about progress.

##### ***Owner-occupiers committed to building safety and maintenance***

Owners who live in the building have a greater understanding of the day-to-day impact of building maintenance and safety considerations. CSV observed many owner-occupiers who were committed to ensuring their building was safe and that it maintained its value.

#### ***Established decision-making processes***

Although CSV was helping owners navigate the tricky process of resolving cladding risk on their building, decision-making responsibility ultimately remained with the OC. CSV observed that the most effective OCs had a committee comprised of owners who clearly understood their role in decision-making with regard to their building and had the capacity to process information and progress the tasks required to proceed through the program. These owners clearly understood their OC committee role and processes and provided clear instructions to their OCM to act on their behalf as required. CSV observed many well-established and well-functioning OC committees who were able to make decisions expeditiously.

##### ***Owners bringing professional expertise to their voluntary roles***

CSV observed many OCs with committee members and chairpersons who had compatible professional backgrounds and were therefore better able to understand committee processes. They showed ability to manage the complexity associated with group decision-making and in providing clear direction to the OCM.

#### **4.1.2 Factors undermining positive outcomes for OCs**

Conversely, CSV was exposed to many of the complexities and challenges that undermined the effective operation of OCs, including:

##### ***Inoperative OCs***

There were some buildings where CSV was unable to contact the OC. 30 OCs did not respond to any CSV communication. As a result, these buildings do not appear to have active management of their common property and are unlikely to be meeting any of their obligations under the Owners Corporation Act.



### ***Owner ignorance and apathy***

There were buildings where CSV was unable to engage all owners. CSV encountered many buildings where owners were disengaged – generally with their OC as demonstrated through non-attendance at critical meetings, or maintaining complete silence throughout meetings. This made it difficult for an external organisation such as CSV to measure the true extent of owner agreement with proposed actions. In such instances, CSV had to rely on those owners who were interested and had the authority to make decisions.

### ***Inexperienced/incompetent OCs***

In many instances, CSV encountered delays in the building rectification process due to a lack of experience and understanding by members of OCs. Some examples of this observed behaviour include:

- OCs requiring the same information to be repeated multiple times;
- owners who were engaging for the first time who did not understand their responsibilities;
- indecision by owners that sometimes led to the costly involvement of private practitioners such as lawyers, project managers and other consultants; and
- many emotionally charged meetings with owners who displayed stress, anger or lack of trust.

### ***Deadlocked and obstructed OCs***

In some instances, CSV encountered OCs that could not be assisted due to the membership and dynamic of the OC committee. These circumstances included:

- buildings where owners were investors and their incentive was to minimise expenditure on the building;
- self-interested owners who were only concerned about the personal impact of decisions on themselves and their individual asset rather than considering the building more broadly; and
- OCs that were not cohesive and were unable to agree on decisions.

A particularly concerning trend observed by CSV involved OCs that were dominated by the developer or original builder who deliberately blocked and obstructed owners from resolving problems at their building. Retaining majority ownership in a building provides the owner or developer with the ability to control the OC. During the program, CSV observed OCs controlled by builders or developers refusing to accept the technical findings about their building and refusing to make the investment required to resolve cladding and other defects on the building.

CSV has observed a strong correlation between buildings with defects not related to cladding and instances of OCs that are deadlocked and obstructed by builders or developers. CSV undertook extensive research into the corporate structure and relationship between building companies and development companies on approximately half the buildings in the program. CSV found 38 per cent of cases where identical directors were observed between building and development companies, with the true figure of related parties likely to be much higher than that.

The implication of this finding is that when the same person or company is on both sides of a commercial transaction, this can reduce the quality of the building because there is less commercial focus on managing the performance of the builder. In the worst examples, CSV observed buildings with serious defects where the developer was also the original builder and had established shell OCM companies to manage their buildings once completed (see Case study 4.2).

### ***Volatility and lack of continuity in OC committee membership***

For some buildings, turnover in the membership of the OC committee presented challenges to the rectification process. While owners are automatically part of the OC, the system requires some owners to assume committee positions. Being on the OC committee is a voluntary role and it can be a big commitment that requires devotion of personal time. For some committee members, the commitment was too great, personal circumstances changed or dynamics with other owners led to changes in the committee membership. Regardless of the reasons driving the change, the lack of continuity of the committee interrupted, impeded and undermined the process.

As with the growing diversity in residential buildings and their inhabitants, OCs and their committees are equally diverse; this section has illustrated CSV's observations of a range of factors that influenced how effective an OC can be in managing and determining decisions that influence the building.



## 4.2 Case Study: OC controlled by developer/builder as Chair of the OC

The following case study describes a real situation that occurred on a building referred to CSV by the then Victorian Building Authority Statewide Cladding Audit in 2019, where the developer/builder was also the Chairman of the OC, and repeatedly hampered efforts to address the cladding issues on the stated building over a four-year period.

**Building:** Three storey, 20 apartment building located in outer suburban Melbourne

**Statewide Cladding Audit Initial Risk Assessment:** Extreme

**Enforcement:** Building Notice and Building Orders

**Outcome:** Original developer/builder owned a majority of the apartments and frustrated attempts to address combustible cladding and other issues over a period of years by dominating the OC. After the developer/builder sold these properties, the other owners cooperated with CSV and the local council to address the problems.

### Summary:

- In 2017, an external wall fire occurred at the property, with one person suffering minor burns. Expanded Polystyrene (EPS) was found present on a large percentage of the external walls and there was no sprinkler system in place.
- The then Victorian Building Authority (VBA) rated the building as Extreme and referred it to CSV in 2019 among 400 other buildings.
- CSV initiated contact with the Chair of the OC in 2020 who was also the majority owner (11 of the 20 apartments) and the original builder. While initially indicating happiness to cooperate with CSV, he soon blocked all communication between the OC and CSV despite numerous attempts to engage with building owners to address the cladding issues for their building.
- There was no response from the Chair for more than a year and a half, including making no attempt to respond to Building Orders issued by the then VBA relating to Essential Safety Measures and the installation of sprinklers.
- In 2022, the Chair finally agreed to CSV arranging a meeting with all owners at which funding and other arrangements were explained to all present including the Chair. As a majority owner of the building (totalling 55 per cent ownership) he would have to fund his portion of the rectification costs, with CSV contributing 45 per cent of the total (to cover the remaining apartment owners).
- The Chair subsequently advised, with the agreement of the owners, that he would organise and pay for the necessary works and seek reimbursement from CSV. In doing so, he was able to stall any rectification works for the building and ensure no progress to resolve the cladding issues.
- The Chair subsequently blocked all communication with CSV.
- In 2024, the Chair finally resigned after progressively selling down all his apartments. In selling his apartments, CSV saw no evidence that Section 32 statements were issued to disclose the building's numerous defects; apart from the combustible cladding, CSV's inspection revealed significant water ingress and other non-cladding related issues at the building.
- Upon his departure, CSV was able to positively engage with the owners and recommend the establishment of a properly constituted OC and engage a professional OCM.
- The remaining owners entered into a funding agreement with CSV to receive a grant to rectify the combustible cladding and obtain finance to fix other issues at the building.
- The resolution of the problems at this building has proceeded smoothly since the exit of the original developer/builder.

### 4.3 Case Study: Challenges for owners navigating a complex system

The case study below illustrates how complicated it can be for active and informed owners to work through the complexity of the building regulatory system to get access to the advice and guidance they require to resolve problems at their building.

**Building:** 10 storeys, 85 apartments, fully sprinklered

**Statewide Cladding Audit Initial Risk Assessment:** High

**Enforcement:** Council Building Notice regarding cladding issued on 8 September 2021 requiring owners to show cause why all of the combustible cladding on the building should not be removed and replaced.

**Outcome:** Owners faced costs in excess of \$1.2 million based on initial assessment of cladding risk by the Statewide Cladding Audit and quotes from consultants.

CSV's assessment and advice resulted in a solution with a greatly reduced scope at a cost of \$105,000.

**Summary:**

- The building was assessed by the then VBA Statewide Cladding Audit on 9 June 2021 and given a risk rating of 'high'. It was recommended that council issue a Building Notice requiring the owners to show cause why they should not be required to remove and replace all combustible cladding.
- The building was subsequently referred by the then VBA to CSV and joined the list of hundreds of buildings being progressively reviewed and actioned.

- The building's owners were proactive in exploring their options for responding to the council's Building Notice but found this to be extremely difficult; as explained in the below email from an owner to CSV in February 2023 (noting at this time CSV was still working through higher risk buildings).

*I am a member of the Owners Corporation Committee for ... and we have been issued with a building notice for flammable cladding.*

*We have engaged various professionals including architects and lawyers to guide us through this but there is so much confusion and lack of information on the required process that it is becoming stressful for all concerned.*

*Many of our owners are elderly and are struggling to understand how they will cover these expensive costs involved.*

*It seems to be a very lucrative racket for all those set to cash in on this terrible situation at the expense of us owners who have not done anything wrong here.*

*How can the government leave all of this burden on the Owners Corporation committee's who are a group of volunteers that care enough for their own homes and investments to get involved.*

*Unless the building is high or extreme risk and is eligible for CSV funding there is no support or guidance for the rest of us, how can that be?*

*I see that NSW has an interest free cladding loan scheme at least but Victoria seems to be sadly lagging behind while people like us are left to carry the stress.*

*Any advice on where we should look for advice and guidance would be greatly appreciated, I feel the state government has let us down badly in this situation.*

*Please help!*

- CSV subsequently commenced engagement with the owners and was informed that consultants had estimated cladding removal and replacement to cost more than \$1.2 million.
- CSV's detailed assessment of the building determined the risk of fire spread had been greatly exaggerated. CSV recommended the removal of a small amount of cladding on a canopy over the main entry/exit. Council accepted CSV's assessment that most of the cladding on the building could safely be retained with only a minimal amount of cladding to be removed and replaced i.e. within three metres of the exit.
- Works were undertaken by the owners at a cost of \$105,000 and the council cancelled the Building Notice.

## 4.4 Observations of OCMs

An OCM has an important role in coordinating and facilitating the daily affairs of an OC and ensuring it complies with its obligations. CSV found the capability of OCMs can vary dramatically with a commensurate impact on building outcomes.

**Table 3. Factors influencing the performance of an OCM**

| Factors that contribute to an effective OCM | Factors that undermine an effective OCM           |
|---|---|
| Mature systems and processes                | Lack of professionalism                           |
| Training and support                        | Corporate approach of strata management companies |
| Experience                                  | OCM turnover                                      |
| Previous experience with the CRP            | OCM integrity                                     |

### 4.4.1 Observations of factors that contribute to an effective OCM

In its dealings with OCMs, CSV identified the following factors that contributed to their effectiveness:

#### ***Mature systems and processes for an OCM to follow***

Many of the tasks that OCMs are required to perform on behalf of an OC are administrative in nature. CSV observed OCMs with established systems and processes were better able to provide a more consistent standard of service across a range of activities for the buildings they manage. These OCMs were more organised and better able to manage the sequence of activities required for a building to proceed through the program. CSV also observed OCMs who were unable to produce records requested by OCs due to poor record-keeping practices. They also demonstrated an inability to meet timeframes due to poor organisation and management.

### ***Training and support for OCMs***

An OCM is required to perform a range of activities that include financial management, contract management, facilities management, record-keeping and governance. There is no standard qualification that a person is required to complete to become an OCM. CSV observed that OCMs who had benefited from tailored training and who had access to support were better able to understand and execute their functions.

### ***Level of experience of OCM***

Many buildings in the program benefited from OCMs who had extensive experience working in the sector and were perceptibly more knowledgeable about the complexities associated with building management and maintenance. More experienced OCMs were better able to distinguish between their role and the role of the OC and to support the OC make the decisions required to progress through the cladding rectification process. Conversely, CSV observed inexperienced OCMs who demonstrated uncertainty and an inability to provide clear guidance to their OC.

### ***Leveraging OCM experience***

There were many instances where an individual OCM was responsible for managing several buildings within the program. These OCMs were able to leverage their experience from the program and apply it to other buildings in their portfolio and better guide owners through the process.

#### **4.4.2 Factors undermining the performance of OCMs**

By contrast, CSV observed many practices and problems with OCMs that can undermine building outcomes, including:

### ***Lack of OCM professionalism***

CSV observed some OCMs that were unable to provide a minimum standard of service to the OCs that relied on them. Perhaps the most powerful example of this was OCMs with inadequately slow response rates to OCs. In these situations, OCs were unable to access their building records and as such were unable to meet CSV timeframes due to delays in setting up meetings or processing paperwork.

### ***Corporate approach of strata management companies***

CSV observed that different operating models can have an impact on the quality of OCM services. In some strata management companies, the ratio of buildings to an individual OCM is far too high for an OCM to adequately deliver quality services. In some instances, this can be mitigated when certain aspects of the OCM role are managed by different departments within an organisation, such as a finance team or a contract management team.

### ***OCM turnover***

CSV observed some strata management companies that were prone to staff turnover resulting in some buildings not having continuity of management through the program. Regular staff turnover can also lead to problems including lack of corporate history, lack of follow through or mistakes. Of course, there are also circumstances where OCs make a deliberate decision to change their OCM for various reasons. While there may be circumstances where such a decision is required, it can also be a disruptive, costly and complicated process. As such, some challenges arose when OCMs changed during the rectification process.

### ***Lack of OCM integrity and objectivity***

In recent times, the media have raised concerns with the lack of integrity in the strata management sector, finding situations of hidden fees, overcharging, phantom charges, kickbacks, undisclosed commissions, lack of disclosure about conflicts of interest, developer influence and opaque contracts that are deceptively designed.<sup>5</sup>

CSV observed circumstances where the OCM was conflicted by their relationship with the builder or developer to the detriment of owners. This can occur when the appointment of the OCM is arranged by the builder or developer prior to the first meeting of the OCM. Some of the situations that CSV observed included:

- Appointment of OCMs that have a direct family or commercial relationship with the builder or developer;
- Establishment of a shell company to be the OCM that is owned and controlled by the builder or developer; and
- Locking OCMs into long-term contracts with a forward payment of fees in a gesture of goodwill that creates a conflict of interest.

In such situations, the OCM cannot discharge their duties with independence and integrity in the best interests of owners. Where the builder or developer effectively control the OCM, they are able to control decision-making for the building including activities such as setting fees and budgets and they are able to block legitimate concerns raised by owners about the original build. These problems can be compounded where owners are disengaged in building matters and the OC is not functioning effectively, therefore in many cases not holding the OCM to account.

CSV observed situations where owners were unable to trust their OC or OCM to act in their best interest. Within this context, it is unsurprising that many owners faced with complex building issues held concerns about obtaining trustworthy advice.<sup>6</sup>

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5 Four Corners: Unveiling "The Strata Trap". 2 April 2024, Exorbitant fees and undisclosed kickbacks: Inside the poorly regulated strata management industry, ABC News.

6 This was highlighted in survey results which revealed stakeholder concerns about obtaining trustworthy advice, presented in section 4.6 of this report.



## 4.5 Case Study: OC dominated by dysfunctional strata management company

The case study below provides an example of the impact of an uncooperative and incompetent OC and strata management company that frustrated the rectification process for combustible cladding despite public funding.

**Building:** Three storeys, eight apartments located in suburban Melbourne

### Statewide Cladding Audit Initial Risk

**Assessment:** Not assessed – combustible cladding identified by CSV and council

**Enforcement:** Building Notice

**Outcome:** After very long delays caused by lack of cooperation from the OC Chair and two OCMs at the strata management company, CSV was able to identify unacceptable risk cladding and provide public funding for rectification totalling approximately \$500,000 or \$80,000 per owner. Despite this, the relationship continued to be difficult which led to owners and occupiers facing cladding risk longer than was necessary and the potential for additional costs due to the OC delaying the builder which could become an entirely avoidable and potentially significant cost for the owners.

### Summary:

- CSV's assessment of buildings begins with initial contact with an OC, usually via the OCM.
- OCs are asked to complete an online form to enable CSV to have all relevant information regarding the building. This process normally takes a few days but can be done in a matter of hours.
- Once CSV's review of the available building information is complete, those deemed to be potentially at higher risk of fire spread from combustible cladding are scheduled for an inspection and, where necessary, the taking of cladding samples for testing. The inspection can only be arranged with the assistance of the OC and its representatives and owners need to provide consent for CSV to enter private property where this is necessary.

CSV has undertaken hundreds of these type of inspections and the process normally takes a few weeks.

- In the case of this OC, contact was initiated by CSV in June 2023.
- Numerous further communications with the strata management company took place advising of the potential risk from cladding, CSV's process and requests to speak directly with the Chair of the OC Committee.
- These communications were met with silence or obfuscation.
- After more than five months, CSV advised that given the lack of cooperation it had no choice but to refer the building to the local council so that the Municipal Building Surveyor could consider requiring the OC to allow an inspection.
- The local council subsequently took this action as it shared CSV's concerns about the potential risk posed by combustible cladding.
- CSV's subsequent inspection confirmed that the cladding risk was indeed unacceptable.
- The strata management company then continued to refuse to facilitate a meeting with the owners to discuss these matters.
- CSV again had no option but to inform the council of its concerns.
- The council subsequently issued a Notice on the building and finally the OC and strata management company agreed to attend a meeting at which an owner – the Chair of the OC committee – would be present.
- Finally, one year after CSV commenced engagement with the OC, a meeting was held.
- Subsequently a Funding Agreement was executed between CSV and the owners for works to remove and replace combustible cladding in which \$500,000 in public funding was provided.
- At the time of writing, more than two years since CSV first engaged with the owners, works risk being delayed due to lack of cooperation by the owners with the builder.
- Under the contract between the two parties, this could lead to substantial delay costs being imposed on the owners due to incompetence and lack of cooperation.

## 4.6 Survey of owners and owners corporations

In April 2025, a survey was sent to more than 900 owners, OCMs and other building representatives who participated in CSV's program asking what they thought about a range of issues.

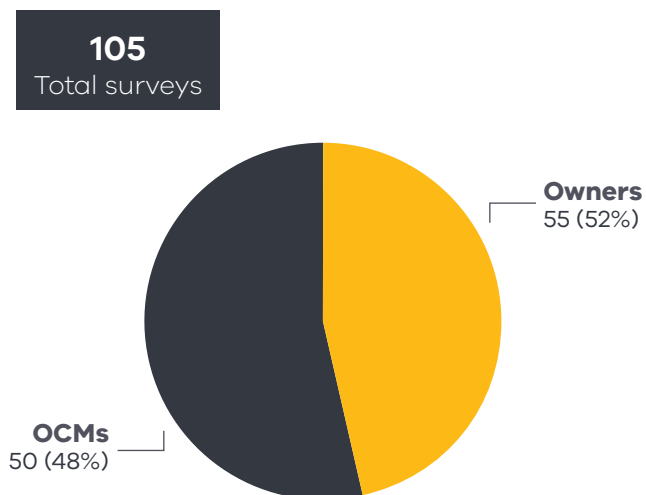
The cohort of survey recipients ranged from owners and OCMs in buildings that were funded (unacceptable risk) to owners and OCMs where no action was required in order for the cladding to be deemed safe (low risk), thus intending to capture a large cohort of views and owner experiences across CSV's program. The feedback from the survey was highly consistent with feedback that CSV had received directly from stakeholders through the program.

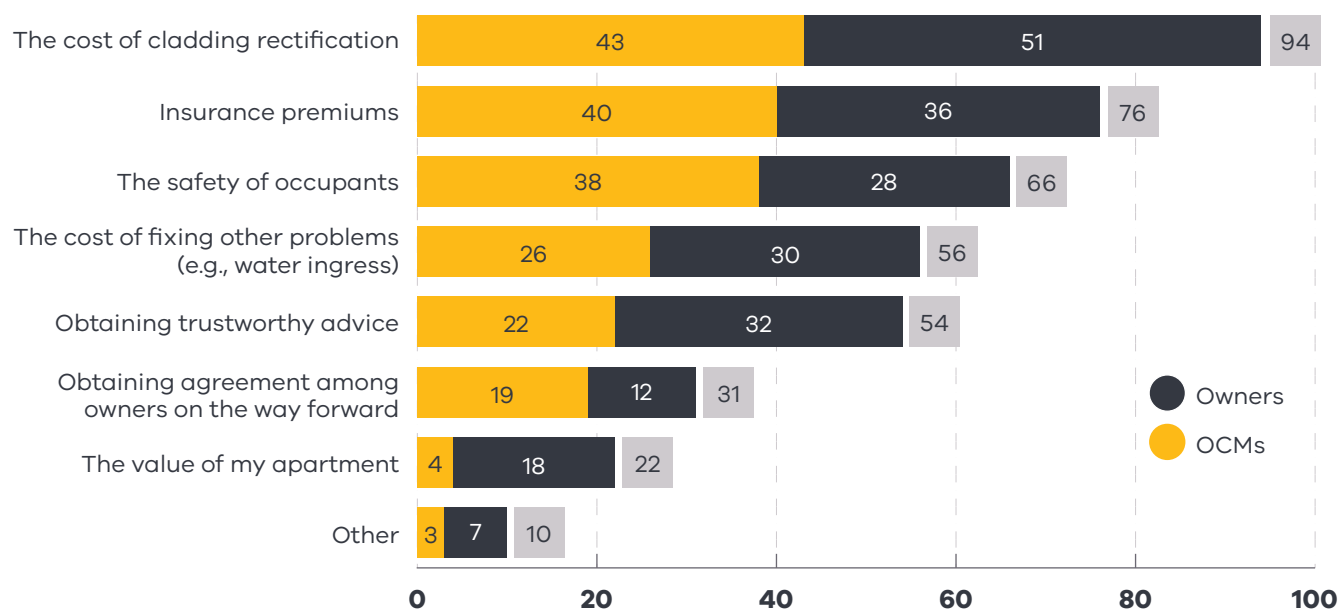
From this survey, 105 responses were received, representing a response rate of approximately 12 per cent.

### 4.6.1 Owner concerns after becoming aware of combustible cladding

The survey asked stakeholders to identify their biggest concerns after they became aware their building had combustible cladding. As highlighted in Figure 3, there were a range of concerns experienced by OCs and OCMs. Cost and safety considerations appeared prominently in the results, as well as concerns about how to resolve the combustible cladding problem through obtaining advice and negotiating agreement. There were also other concerns raised including the impact on the value of apartments as well as frustrations with the predicament of combustible cladding and apartment living. The results show these concerns were prevalent for both owners and OCMs.

**Figure 2. Breakdown of survey respondents**



**Figure 3. Concerns after becoming aware of combustible cladding**

The section below looks at each of the concerns raised by OCs and OCMs in the survey in more detail.

### ***The cost of cladding rectification***

Cost factors rated most prominently in survey results when owners and OCMs became aware of combustible cladding on their building. Figure 5 illustrates that the cost of cladding rectification was raised as a concern by 90 per cent of respondents and was the most prominent concern for both owners and OCMs.

Many buildings were unable to rely on a building maintenance fund, and as such, many owners were concerned about how to fund the cladding works.

CSV funded the highest risk buildings, with more than 440 undergoing works.

In December 2023, CSV implemented the Protocols for Mitigating Cladding Risk (PMCR) which has played a key role in developing cost-effective interventions for managing combustible cladding risk commensurate with the lower risk cladding on many buildings, without compromising safety.<sup>7</sup>

<sup>7</sup> CSV's evolved approach was backed on 21 September 2023 when the Victorian Government, through the Minister for Planning, Sonya Kilkeny, issued Minister's Guideline 15 and the Cladding Risk Mitigation Framework under section 188(1)(c) of the *Building Act 1993* (Vic).

### ***Insurance premiums***

One of the costs associated with the combustible cladding problem is the rising cost of insurance that owners have faced because of increased (or perceived increased) fire risk. This has placed upward pressure on insurance premium costs.<sup>8</sup> Both owners and OCMs identified insurance premiums as the second greatest concern due to combustible cladding on their building, with 72 per cent of respondents indicating concerns about insurance premiums, illustrated in Figure 3.

CSV has engaged with the insurance industry to communicate the combustible cladding research outcomes and CSV's risk-mitigation methodologies. CSV has also published the full set of PMCR documents, which includes the research and analysis that informed the PMCR design, on its website.<sup>9</sup>

The value of CSV's risk analysis is evident in the description provided by one survey respondent about how helpful they found CSV in 'providing support to overturn outrageous insurer demands'.

### ***The safety of occupants***

Given the cladding-related fires that occurred in Melbourne, and catastrophic cladding-related fires around the world, owners and OCMs were concerned about fire safety resulting from the combustible cladding on their building.

Figure 3 also shows that 63 per cent of survey respondents were concerned about safety, rated the third greatest concern overall in the survey. However, OCMs rated safety more prominently than owners, with 76 per cent of OCMs rating safety as a concern compared to 51 per cent of owners. OCMs selected safety as their third greatest concern, with the top three concerns being cost of cladding rectification, insurance premiums and safety of occupants, all rating quite evenly (only 10 per cent difference between responses). By contrast, owners rated safety as their fifth greatest concern, with the cost of cladding rectification receiving almost double the response compared to safety (40 per cent difference). This may be explained by OCMs having a greater understanding of building safety considerations and OC responsibility for building safety considerations than the owners of individual apartments who are often more narrowly concerned with their individual apartment. It may also depend on whether owners are owner-occupiers or investors.

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8 The Insurance Council of Australia (ICA) has indicated that the non-compliant use of building products such as external cladding materials 'critically undermines the ability for an insurer to rely upon the safety and performance of the building'. This directly impacts the insurer's ability to establish their risk exposure which, the ICA stated, influences the setting of insurance premiums. The Senate Economics References Committee, Non-Conforming building products, Interim Report: aluminium composite cladding, February 2017, p.12.

9 CSV, Protocols for Mitigating Cladding Risk. 13 March 2024. CSV has also published the results of a series of fire tests on cladding products which are also available on CSV's website.

### ***The cost of fixing other problems (e.g. water ingress)***

The survey responses indicated that over 50 per cent of owners and OCMs were concerned about the cost of fixing other problems that may come to light during cladding rectification works.

This is consistent with findings in CSV's Research Analysis about building defects<sup>10</sup> which showed over 50 per cent of buildings in the Cladding Rectification Program encountered latent defects not related to cladding. In other words, over 50 per cent of OCs in the program had additional complexity to manage in addition to the cladding works supported by CSV.

As one survey respondent described it, "[combustible cladding] was the least of the worries for the people in this complex. They have much bigger issues."

### ***Obtaining trustworthy advice***

A significant proportion of respondents were concerned about obtaining trustworthy advice regarding what was required to resolve the combustible cladding problem on their building.

Many owners were also unaware of the combustible cladding. The ability to access essential information about a building can have an important bearing on building outcomes. The lack of information available to building owners about the materials that constituted the external wall of their building and the combustibility of those materials is a pertinent example of this problem. Even owners that were actively engaged in their building management were not aware of the combustible cladding problem as illustrated through these testimonials.

"It was pretty panicky at the time, because we didn't understand. We'd just spent a lot of money on fire prevention and fire safety going inside the building and we didn't even know about the outside of the building. We thought we were pretty well off and all of a sudden we weren't well off. The regulations didn't change but we were made aware of things we weren't told before. Every time we opened a door the door got bigger."

**– Graeme, OC Chairperson**

"We had no idea that we had any combustible cladding on our building... we asked the developer who we know well if he could give us a letter to tell us in his words what was on the building and at no mention was there foam. We had a valuer come out to check the building for the purposes of valuation and insurance and he saw nothing."

**– Annie, OC Chairperson**

"It came as a complete surprise to us, in fact we were rather shocked, because we had spent quite a lot of time on this building making sure that we complied with absolutely everything so everything had been fixed up. Suddenly we had a building that was going to be a problem and of course that shocked us."

**– Tom, OC Chairperson**

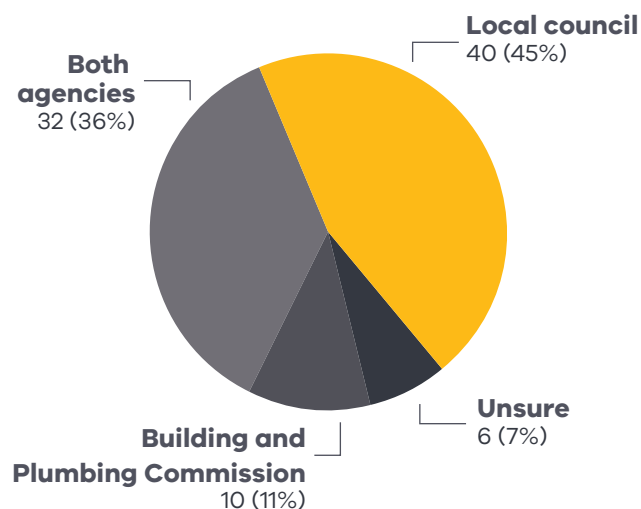
<sup>10</sup> CSV Research Analysis No.2, Non-cladding Building Defects, 2024.

### Complex regulatory environment

CSV observed considerable confusion regarding the roles of the Municipal Building Surveyor (MBS), Private Building Surveyor (PBS) and the Building and Plumbing Commission (BPC). There are several provisions in the *Building Act 1993* (Vic) that create an overlap in these responsibilities, particularly with respect to building permits and inspections. The overlap is visible in the survey response in Figure 4 where respondents were asked who issued the enforcement action on their building. The survey responses show evidence of a regulatory environment which creates confusion for industry participants and consumers. This experience is reflected in the Second Reading of the recent building legislation amendment:

*“Responsibility for domestic building functions is fragmented across various agencies... Fragmented regulatory responsibilities create confusion for consumers, who may not know which agency to turn to when a building work issue arises. Consumers are often passed around agencies before finding the right one to investigate or resolve their problem, leading to lost time and additional costs. Sometimes consumers give up and choose to incur costs to rectify building work themselves rather than pursue the builder for work that should have been done correctly the first time”.<sup>11</sup>*

**Figure 4. Survey responses about who issued building enforcement action**



<sup>11</sup> Nick Staikos (ALP), Building Legislation Amendment (Buyer Protections) Bill 2025, Second Reading, 5 March 2025.

Given the difficulty that owners experienced finding out about the combustible cladding problem on their building, coupled with the complexity of the regulatory environment, owners expressed concern about how to obtain trustworthy advice for their building. One survey respondent described feeling as though the council officers involved in resolving their cladding problem were ‘more intent on punishing us than finding solutions’.

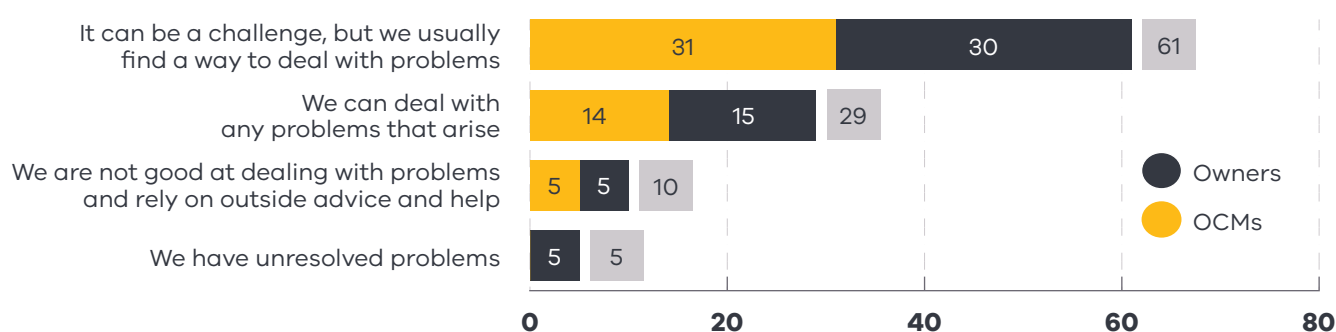
The concerns owners and OCMs experienced gaining trustworthy advice to resolve their problem is also evident in the responses to two further questions. When asked what aspect of the service provided by CSV was most helpful, the most prominent response was that CSV provided a technical solution to the combustible cladding problem on their building. Furthermore, when asked whether the Victorian Government should provide an independent advocate to help apartment owners deal with buildings, regulators and others, almost 80 per cent of respondents answered yes. These findings are considered in further detail in section 4.8 of this report.

### ***Obtaining agreement among owners on the way forward***

Concern about obtaining agreement among owners to resolve the combustible cladding problem was raised as a concern by 30 per cent of respondents, including both owners and OCMs.

The difficulty associated with obtaining the agreement among owners was also evident when respondents were asked to rate their OC’s ability to deal with problems like cladding or other issues that arise from time to time. The response to this question highlighted the difficult operating context of the OC sector for both owners and OCMs alike. Over 70 per cent of respondents noted the challenges associated with dealing with problems in the sector, with only 28 per cent of respondents indicating confidence they were able to deal with any problems that arise. Almost 15 per cent of respondents indicated their OC was unable to manage problems.

**Figure 5. Survey responses rating their OC’s ability to deal with issues like cladding**





### **Apartment values**

33 per cent of owners experienced concerns about the value of their apartment when they became aware of the combustible cladding on their building.

One option available to owners faced with the combustible cladding problem would be to sell their apartment; however, there was concern about combustible cladding more broadly in the community with one in five surveyed owners (20 per cent) reporting they encountered difficulty in attempting to sell their apartment before the combustible cladding problem was addressed.

### **Other concerns**

Owners and OCMs raised a range of other concerns when they became aware of combustible cladding, including owner wellbeing, feelings of injustice and uncertainty.

The presence of combustible cladding has had far-reaching impacts on the mental health and well-being of owners and occupants of affected buildings. A UK study quantified the extent and severity of adverse impacts on occupant well-being caused by combustible cladding with 90 per cent stating that their mental health had deteriorated and 84 per cent indicating they could not move on with their lives.<sup>12</sup> An Australian study found homeowners felt unsafe, had financial concerns, displayed long-term negative emotions, spent significant time without finding a solution and experienced impacts to liveability including making cost-saving decisions, delaying retirement and experiencing social tensions with other residents.<sup>13</sup> CSV regularly observed the emotional layer of the combustible cladding problem. During the program, owners shared the shock, anxiety, stress and panic that they experienced when learning about the combustible cladding issue on their building.<sup>14</sup>

Another concern raised by some owners was related to the injustice they felt towards the regulatory failure that led to the combustible cladding problem and the resentment they felt given the cladding was on their building through no fault of their own. One survey respondent described that when they became aware of combustible cladding, they were concerned with 'whose fault it was in the first place – in our case, not us'. This was compounded when owners became aware of more extensive defects, further increasing worry and stress.

Other stakeholders described concerns about the lack of urgency they experienced when seeking assistance to resolve the problem, including the uncertainty and lag associated with not knowing the outcome for their building.

## **4.7 The role of CSV in engaging and communicating with owners**

CSV was established to support OCs because the Victorian Government foresaw the complexity of the cladding rectification process. The rationale is well articulated in the Second Reading of the legislation to establish CSV:

*"...it's become clear that often owners corporations are not adequately governed and resourced to deal with complex, large-scale building matters like cladding rectification... the Government decided it needed to intervene to support owners of buildings assessed as higher-risk to rectify their combustible cladding. This support includes funding, but also a critical role for the Government in helping to advise and guide owners and owners corporations through the process of rectification. This is why the Government has established Cladding Safety Victoria."*

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12 Martin, W. and Preece, J. (2021) Understanding the impacts of the UK 'cladding scandal': Leaseholders' perspectives.

13 David Oswald, Trivess Moore and Simon Lockrey, Flammable Cladding and the effects on homeowner well-being, Housing Studies, 21 February 2021.

14 ABC news, Flammable cladding on apartment complexes leaves painful legacy in Victoria months after ban, 20 June 2021. ABC news, Combustible cladding removal costs and uncertainties causing anxiety in building owners, 4 June 2022.



As such, CSV developed an approach to support building owners through the cladding rectification process while recognising that the primary responsibility for building safety resides with building owners, represented by their OC. There were many elements of the program that were far from day-to-day operational activities of OCs. At each critical point in the process, CSV embedded an engagement process with building owners to explain what was required to keep the building moving through the program.

CSV's engagement data highlights that owners needed the bespoke support provided by CSV to understand their responsibility and to take the decisions required through the rectification process. CSV uses its Customer Relationship Management System to record and manage communications, including those with OCs and owners. Table 4 illustrates the interactions that CSV staff had each year with the owner representatives of private buildings including emails, phone calls and appointments.

**Table 4. Annual engagement interactions with OCs**

| Year    | Meetings | Phone  | Email | Enquiries via telephone support line | Total  |
|---------|----------|--------|-------|--------------------------------------|--------|
| 2020-21 | 360      | 2,905  | 9,508 |                                      | 12,774 |
| 2021-22 | 462      | 12,461 | 2,592 |                                      | 15,515 |
| 2022-23 | 529      | 2,699  | 7,492 | 857                                  | 11,577 |
| 2023-24 | 452      | 3,347  | 9,816 | 918                                  | 14,533 |

Table 5 illustrates that the demand for support remained consistent throughout the program and provides insight into the quantum of average daily and weekly interactions that CSV had with OCs and owners to deliver the program.

**Table 5. Annual, weekly and daily breakdown of CSV engagement with OCs**

| Year <sup>15</sup> | Total number of interactions between CSV and OCs/owners | Average weekly interactions between CSV and OCs/owners | Average daily interactions between CSV and OCs/owners |
|--------------------|---|--|---|
| 2020-21            | 12,774  | 245  | 49  |
| 2021-22            | 15,515  | 298  | 60  |
| 2022-23            | 11,577  | 222  | 45  |
| 2023-24            | 14,533  | 279  | 56  |

<sup>15</sup> Data extracted from CSV's Annual Reports.

On average, there were 13,600 individual communications involving building owners each year. This level of activity between CSV staff and building OCs equates to an average of 261 communications a week or 52 for each day of the working week.

Providing guidance and advocacy around how to navigate regulators and their processes is an invaluable service to many OCs as illustrated in the following quote by one program participant who described their experience of moving through the process with CSV.

"And then all of a sudden there were documents, and contracts, and an agreement that we had to review and sign. It was just monstrous, it was constant, constant paperwork, which initially was overwhelming... It was an incredible learning curve for us especially... the nominated committee members to sign everything... Initially I felt a great responsibility... but we learnt on the job as it were and we had good management in terms of both the project manager, we knew we always had CSV to fall back on and we also had our own body corporate managers to advise." – **Annie, OC Chairperson**

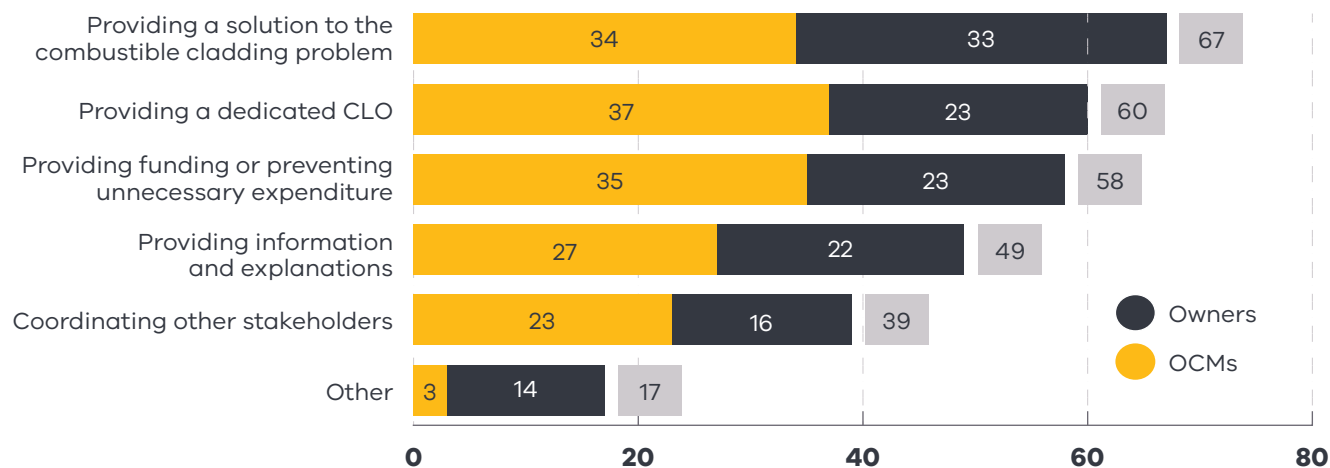
4.8 Feedback from owners and OCMs about assistance

The annual satisfaction survey conducted by CSV provides insight into the benefit that owners and OCs see from having CSV involved in the journey to resolve the combustible cladding on their building. The results from the survey included in Table 6 demonstrate that over the four years of the program an annual average of 96 per cent of respondents agreed or strongly agreed that CSV’s assistance was critical to helping their OC rectify combustible cladding on their building.

Table 6. CSV stakeholder annual satisfaction survey results

|  | 2021 |      | 2022 |    | 2023 |    | 2024 |    |
|--|------|------|------|----|------|----|------|----|
| Survey response of ‘Strongly agree’ or ‘Agree’ | No.  | %    | No.  | %  | No.  | %  | No.  | %  |
|  | 108  | 91.5 | 102  | 97 | 70   | 97 | 99   | 98 |

When faced with a problem, it is not always the financial support that serves as greatest support to stakeholders impacted by the problem. There were many different aspects to the assistance provided by CSV that were valued by stakeholders as illustrated in the survey responses provided by both owners and OCMs.

**Figure 6. Survey responses about what CSV service was most helpful**

The majority of survey respondents considered the most helpful aspect of CSV's service to be providing a technical solution to the combustible cladding problem on their building.

CSV has also alleviated owners and OCMs of the challenges associated with project administration and logistics of complex building projects. When asked what aspect of the service provided by CSV was most helpful, 37 per cent of overall respondents (comprising 46 per cent of OCMs) selected CSV's role in coordinating other stakeholders.

"What was really good throughout the whole process was the communication between the owners corporation, CSV, the project managers and the contractors undertaking the works. At no time did I feel as though I did not know what was happening to the building – everyone was transparent and honest, factual and certainly knew their stuff. We got the right solution for our building to mitigate flammable cladding."

– Ian, OC Committee Member

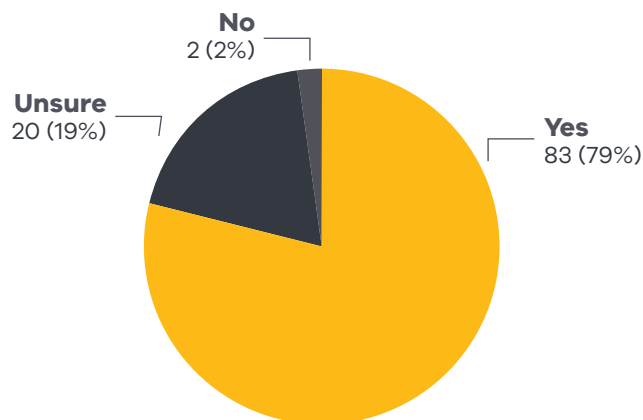
"We waited on tenterhooks until the results came forward and the recommendation, I actually thought [it] was an elegant solution. Rather than ripping everything off. Basically explaining that we had a problem, and actually coming up with a good solution."

– Tom, OC Chairperson

The complexity of the regulatory environment is even more difficult for apartment owners who need to navigate through the system while managing the processes associated with shared ownership.

Given the feedback that CSV has received throughout the program about the value of getting tailored information and support, CSV asked survey respondents whether they saw benefit in the establishment of an independent advocate dedicated to helping apartment owners when dealing with builders, regulators and other practitioners involved in the sector (such as fire safety engineers, building surveyors, project managers and other consultants). The results strongly indicate that there is a need and an appetite for additional assistance for apartment owners, with 79 per cent of stakeholders supporting the establishment of an independent advocate by the Victorian Government.

**Figure 7. Survey responses about the need for an independent advocate to help apartment owners**



The value that an independent advocate for apartment owners could provide is described by program participants below.

"As a committee, we were driven and we learned a lot, but I can imagine that there are a lot of buildings that wouldn't be as fortunate as us. They would definitely need an advocate. I think it would be really hard to understand what they'd be up against so an advocate would be really important."

– **Loren, OC Committee Member**

"In my opinion, people are scared of what can happen so they need someone to go to. It is always hard to find someone to go to and get an answer, I think that's important. I manage my own business and this has taught me more in two years than I've learned in 30 years. I think it's a huge challenge because I think a lot of buildings are in the hands of stratas, I think stratas may not be aware or are not forthcoming."

– **Graeme, OC Chairperson**

## 4.9 Case Study: Proactive OC receives expensive and ultimately unnecessary fire engineering advice

The following case study illustrates how difficult the regulatory environment and processes can be to navigate as a lay person. It also demonstrates the benefit of support and guidance that CSV can provide to an OC, even when rectification funding is not applicable to a particular building.

**Building:** Four storey, 80 individual apartments with sprinkler protection in suburban Melbourne

### Statewide Cladding Audit Initial Risk

**Assessment:** Low (2018)

**Enforcement:** No enforcement issued

**Outcome:** A fire engineering firm hired by owners recommended partial cladding removal and replacement estimated to cost owners more than \$2 million. CSV subsequently assessed the building as low risk with no works required for the building to be deemed safe. Council and owners accepted CSV's advice. No enforcement has ever been issued and the building was discharged from CSV's program, requiring no further action.

### Summary:

- In 2018 the then VBA Statewide Cladding Audit assessed the building as low risk and referred it to council.
- As a low risk building, it was not referred to CSV after its creation in 2019.
- Based on the Statewide Cladding Audit assessment, council did not take any action.
- Owners proactively undertook testing of the cladding in 2020 as part of legal action against the original builder which was later abandoned.

- In 2022, the owners engaged a fire engineering firm on their own initiative to assess any fire risk. An initial draft report was provided in October 2022, a second draft in December 2022, a final report in February 2023 and revisions of this in January 2024 and February 2024.
- The final report assessed the cladding as a risk and recommended partial removal and replacement in a scope of works estimated by the consultant to cost more than \$2 million (in addition to the substantial sums already expended on consultants).
- This report was provided to council in February 2024. Council subsequently passed the report to CSV requesting CSV's view of the building.
- It should be noted that these lower risk buildings referred by the Statewide Cladding Audit to councils were not in scope for consideration by CSV until after CSV entered into the partnership program with councils in 2024 to help owners resolve outstanding matters.
- On 8 October 2024, CSV provided a report to council assessing the building as low risk with no remediation works required.
- On 8 November 2024, council notified CSV that it accepted the report and confirmed there was no enforcement on the building. CSV immediately informed the owners of the outcome which meant they did not need to find more than \$2 million. CSV also advised the owners to use CSV's report and council's acceptance of it in discussions with the building's insurers.
- On 13 November, CSV formally notified the owners that the building had been discharged from CSV's program.

# 5. Discussion

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Apartment living is an increasingly popular option for many Victorians. In 2019 it was estimated that around 1.5 million Victorians – a quarter of the state’s population – either live in, or own property in, strata buildings.<sup>16</sup> It is predicted this trend will only increase over time. The Victorian Government has made a commitment to increase medium and high density living through a range of initiatives outlined in Victoria’s Housing Statement.

In addition to the trend towards apartment living, there are an increasing number of mixed-use developments, further increasing complexity. This is because they may have multiple OCs and multiple types of non-residential building uses throughout the building (for example commercial use and hotels). These arrangements introduce additional complexity to the governance arrangements for the day-to-day management of the building.

### ***The importance of a well-functioning OC and OCM***

The functions of OCs and OCMs will only increase in importance and complexity over time as the apartment market continues to grow, densify and diversify.

The 1,654 residential buildings in-scope in CSV’s Cladding Rectification Program provide a good snapshot to show the diversity of different buildings across the sector. The buildings in CSV’s program were different in a myriad of ways including building characteristics of height, size and location, the composition of owners and tenants in a building, and the type of combustible cladding and the risk that the combustible cladding presented to the building.

In delivering the program, CSV has observed the challenges associated with shared ownership and the constraints of the OC committee structure, encountering the full spectrum of OCs from highly professional and well-functioning to completely dysfunctional and non-responsive.

Only through a well-functioning OC are building owners able to effectively plan for and deliver the long-term maintenance and safety of their building.

OCMs have an important role in supporting OCs to discharge their responsibilities and can have an important influence over the liveability and long-term outcomes for a building. As part of CSV’s program, OCMs commonly supported OCs with numerous administrative tasks and processes. This enabled OCs to register for CSV assistance, organise access for due diligence assessments to diagnose the combustible cladding at the building and provide critical documents required to meet stipulated conditions should the OC go on to receive rectification funding from CSV. However, in some circumstances, OCMs have not delivered what is required for their OC by not providing key documents in a timely manner (such as bank account details or proof of insurance) and not facilitating or prioritising the signing of funding agreements. For CSV’s program, the impact of a poor performing OCM can cause a building to progress more slowly through project milestones and processes. CSV has observed first-hand the effect that unresponsive OCMs can have, and the additional stress this can create among owners.

It was generally observed that while large buildings were more directly managed by paid staff or management firms, there was usually relatively less engagement from owners, many of whom would be investors rather than owner-occupiers. This often meant that apartment owners were not engaged in issues with the building until the prospect of unexpected costs for individuals became real. It was also frequently observed that individual apartment owners complained of poor communication from the OC committee or management and unhappiness over decisions taken, about which they claimed not to have been consulted.

<sup>16</sup> Marlene Kairouz (ALP), Owners Corporation and Other Acts Amendment Bill 2019, Second Reading, 11 September 2019.



In buildings with a small number of apartments – anything from two to fifty for example – owners through their OC committee were observed to be more dominant with one or two key individuals taking decisions based on varying degrees of consultation with other owners.

Even the most prepared and well-functioning OCs can experience unforeseen issues such as defects, that can cause a great deal of disruption. When an OC is experiencing issues with standard governance and decision-making processes, unforeseen issues that are complex in nature can cause major disruptions and can be very costly.

Conversely, some builders and developers have deliberately orchestrated the structure of OCs and the appointment of OCMs to retain a controlling interest over buildings and obstruct or frustrate any attempt by owners to improve building management or raise concerns about the original build. CSV found extensive evidence of direct relationships between contracted builders and developers. Furthermore, CSV observed a strong correlation between buildings with defects not related to cladding and instances of OCs and OCMs deadlocked or obstructed by builders or developers. These circumstances present risks to the future of the building stock when there has not been effective building management and there has not been any regulatory oversight of fee structures, building funds or building maintenance.

The case studies in this report provide some examples of the impact that OCs or OCMs can have in managing the complexities of the sector.

These observations give rise to questions related to the effectiveness of communications within OCs and with those who support them including OCMs, lawyers and other service providers: are high levels of apathy among owners inevitable? Should stricter statutory communications and voting requirements be introduced? Should more checks and balances be made to approval processes? Should external service providers such as OCMs and lawyers be required to demonstrate their advice has been properly circulated to all owners?

### ***The importance of clear documentation and access to information***

At the outset, the lack of building documentation that CSV encountered relating to combustible cladding on buildings within the program is symptomatic of a more common problem across the sector. The need to improve documentation of building design and record keeping requirements has been a strong theme in recent building sector reforms.

The Building Confidence Report included a recommendation for a centralised source of building design and documentation, noting that such a reform would “enable authorised persons to access key information about the construction and approval of buildings, leading to greater transparency and auditability. It would strengthen public accountability.”<sup>17</sup>

The Stage One Report to Government by the Expert Panel on Building Reform also included recommendations to enforce and improve requirements for documentation across the building lifecycle to improve accountability and transparency.<sup>18</sup> Improving the information available to participants in the sector and ensuring clarity about responsibility for maintaining such records would improve the information base to understand and regulate the sector.

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17 Peter Shergold and Bronwyn Weir, Building Confidence. Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia, Commonwealth of Australia, February 2018.

18 Stage One Final Report to Government, Expert Panel on Building Reform, p. 17.

### ***The importance of CSV's engagement and support services***

The combustible cladding problem has also highlighted that navigating the building regulatory environment is complex. There are multiple regulatory bodies (such as the Building and Plumbing Commission (BPC) and Energy Safe Victoria (ESV)) and several different licensing and registration authorities for different participants including the Business Licensing Authority (BLA), Consumer Affairs Victoria (CAV), Architects Registration Board of Victoria (ARBV) and the BPC. There are also multiple dispute resolution authorities including Domestic Building Dispute Resolution Victoria (now part of the BPC) and the Victorian Civil and Administrative Tribunal (VCAT).

In delivering the Cladding Rectification Program, CSV encountered a weak appetite for original builders to come back and rectify the buildings they put combustible cladding on.<sup>19</sup> Many owners expressed frustration at the injustice of being held financially responsible for combustible cladding and other defects that were there through no fault of their own. The current mechanisms for consumers to seek recourse for non-compliant or poor-quality building work are limited and often ineffective.<sup>20</sup>

Tailored engagement was the most critical aspect to the success of the program. CSV designed its program to ensure that OCs were equipped to make the important decisions required for the program to proceed. By working closely with OCs through the complex building rectification process, CSV was able to identify opportunities to support them to better prepare for unforeseen circumstances and challenges and to minimise their impact both emotionally and financially.

The level of engagement activity required by CSV to deliver the program is testament to the support that OCs and OCMs required to achieve cladding rectification for their building. The feedback highlights there is a need to support the sector with navigating the complexity associated with apartment building management, maintenance and safety. As the building stock ages, there is an increasing risk where buildings are not being adequately maintained, particularly given the challenges that many OCs face in operating effectively.

CSV has received extensive feedback from program participants that CSV advice was critical to helping them resolve the combustible cladding on their building. Stakeholders have valued many aspects of CSV's service that go beyond the funding support. Within this context, owners expressed considerable support for an independent advocate to be established that could assist them navigate the complexity associated with apartment buildings and shared ownership akin to what CSV provided in terms of its advice and support.

19 CSV Annual Report 2020-21, September 2001, p. 35.

20 Building owners, particularly OCs, have found it difficult to satisfy a Court that they were vulnerable and owed a duty of care. The High Court 2014, *Brookfield Multiplex Ltd v Owners Corporation Strata Plan*.

## 6. Reform opportunities for further consideration

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**This research analysis reveals there are many opportunities to improve the way strata buildings are regulated and managed to drive better outcomes for building safety and compliance as well as improving the operation of building management for owners and residents as the sector continues to grow and diversify.**

Any reforms could consider the following areas of focus:

- Assisting owners and OCs through the development of customised information and tools to better understand their responsibilities and more effectively meet their requirements such as compliance obligations, sourcing advice, contract tendering, engaging practitioners and meeting safety standards.
- Establishing a centralised database for registering OCs that includes important building information such as OCM contact details, quality and maintenance of ESMs, enforcement history on the building, and information on other essential compliance-related issues concerning the quality and safety of the building.
- Clarifying conflict of interest obligations on all OC members and OCM companies to address unethical practices and behaviours.
- Development of an OCM code of conduct to enhance the professional standard and professional behaviour of OCMs in the carrying out of their roles and functions, including:
  - obliging OCMs to declare all trailing commissions received by them in the course of their work; and
  - introducing greater oversight of critical aspects of the OCM role (such as conflicts of interest).
- Identifying limitations on the involvement of original builders and developers on OCs and providing greater regulatory scrutiny of that involvement to ensure that owners are treated fairly and ethically by these entities.

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