



Disagreement vs. Dysfunction - The Committee Dilemma

Presented by:

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The Reality of Owners Corporations

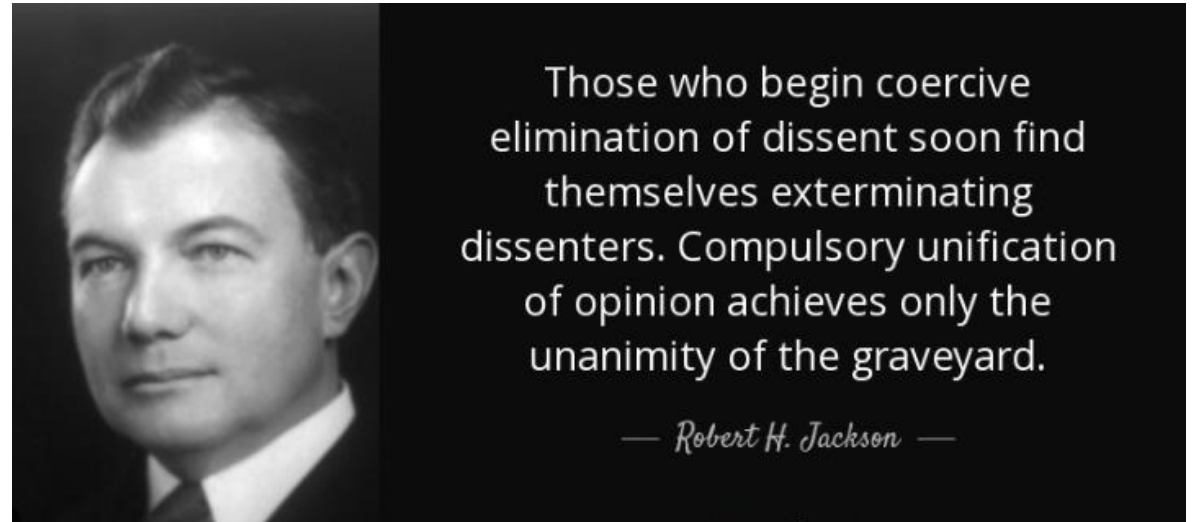
- Volunteers, not professionals
- Diverse skill levels
- Low engagement (AGMs, voting)
- Reliance on managers
- Complexity of obligations increasing
- Enter the art of politics - compromise



Disagreement vs Dysfunction

Disagreement (Healthy)

- Different priorities and perspectives
- Robust debate
- Challenging ideas respectfully
- Decisions made after discussion
- Compromise and negotiation
- Governance focused on long-term outcomes

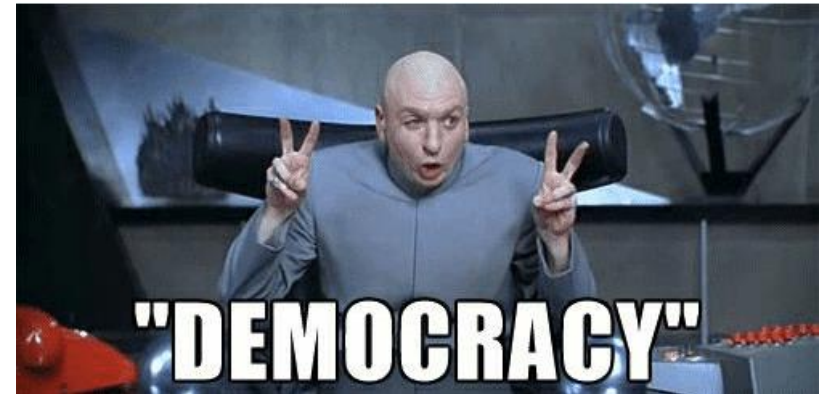


How Governance Drift Begins

It **rarely** starts with bad intentions.

It often starts with:

- Keeping levies artificially low
- Delaying maintenance “for another year”
- Avoiding difficult conversations
- Short-term decision making
- Owner apathy
- Financial decisions based on pressure rather than planning



When Disagreement Becomes Dysfunction

Dysfunction

- Poor decision-making patterns
- Ignoring advice
- Lack of financial oversight
- Inability to act in best interests of OC pursuant to the *Owners Corporation Act 2006* (Vic)



What is Dysfunction Legally?

Not every difficult committee is legally “dysfunctional.”

VCAT generally looks at whether the OC can:

- make effective decisions
- meet its legal obligations under the *Owners Corporation Act 2006* (Vic) and other legislation
- Manage finances responsibly
- Function in the interests of all lot owners

Financial Blind Spot & Budgets Gone Wrong

The Financial Blind Spot

- Most committee members have no formal financial training
- Budgets are often based on prior years rather than future risk
- Fear of levy increases can distort decision-making
- Forecasting and contingency planning are often overlooked

How Budgets Go Wrong

- Copy-paste budgeting
- Underestimating contractor and maintenance costs
- No long-term maintenance planning
- Confusion between Admin and Maintenance Funds
- Spending outside approved budgets
- No emergency contingency

Early Warning Signs & Governance Failures

Early Warning Signs

- Repeated special levies
- Minimal cash reserves
- AGM attendance declining
- Emergency spending becoming normal
- Increasing owner complaints
- Delayed maintenance decisions

Governance Failures

- Committees not understanding obligations
- Decisions made by one or two dominant voices
- Managers not challenged appropriately
- Advice ignored repeatedly
- Lack of accountability
- Owners disengaged from governance

When Governance Failure Escalates

Operational Breakdown

- Decisions cannot be made
 - Meetings become hostile or ineffective
- Critical maintenance delayed

Financial Breakdown

- Cash flow instability
- Repeated unplanned levies
 - Increasing arrears

Legal Breakdown

- Breaches of duties
- Failure to comply with legislation
 - Escalation to disputes or VCAT applications

Administration Explained

VCAT may appoint an administrator where an OC is no longer able to function effectively or properly discharge its obligations.

In practice, this may involve:

- Governance deadlock
- Serious financial instability
- Failure to maintain common property
- Repeated disputes preventing decisions
- Inability to act in the interests of the Owners Corporation as a whole

The practical reality is that an administrator maybe given some or all the powers of the OC. Therefore, administration is generally viewed as a last resort and not a first response.



What Does VCAT Actually Look At?

Usually not Enough

- Personality clashes
- Heated meetings
- Different opinions
- Frustration between owners
- Strong personalities

Potential Indicators of Dysfunction

- Governance paralysis
- Repeated failure to make decisions
- Financial instability
- Failure to maintain common property
- Ongoing breaches of duties

The Downsides of Administration

- Significant cost to the OC
- Loss of owner and committee control
- External decision-making authority
- Potential increase in management expenses
- Recovery from dysfunction can take years
- Potential reputational impact for the building
- Potential long term financial burden arising from OC loans and associated repayment obligations

Intervention may solve the immediate crisis, but it does not always repair the underlying culture.



Impact on Property Values

Buyers, lenders, and conveyancers increasingly examine:

- Financial health of the Owners Corporation
- Cash reserves and levy history
 - Maintenance planning and capital works forecasting
 - Special levies and financial stability
- Building defects and unresolved disputes
 - Litigation and administrator appointments

Common Market Reactions:

- Buyer hesitation during due diligence
- Increased concern from lenders and insurers
 - Reduced purchaser confidence
 - Lower perceived building quality
- Increased pressure on owners to sell during levy shock



Prevention

Governance

- Educating owners and committees on consequences of disengagement
- Increasing transparency around spending decisions
 - Communicating long-term planning clearly
 - Understanding roles/responsibilities
- Better decision frameworks
- Listening to professional advice

Engagement

- Improve AGM participation
 - Educate owners
- Increasing transparency around spending decisions
- Build shared responsibility
- Communicating long-term planning clearly

Financial Discipline

- Realistic budgeting
- Scenario forecasting
- Reviewing expenditure trends annually
- Building adequate reserves gradually
- Separating affordability concerns from long-term sustainability
- Independent expertise when needed

Key Takeaway

- Dysfunction rarely happens overnight
- Good intentions do not replace good governance
 - Financial mismanagement is often cumulative
- Early intervention is significantly cheaper than crisis management
 - Healthy disagreement strengthens governance, dysfunction weakens it

Most dysfunctional OCs did not start with bad people, they started with ordinary people making short-term decisions under pressure.

If you have any questions about this presentation, please contact:

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