The essentially long-term and strategic nature of sector studies is not, however, a suitable basis for a detailed investment programme. For this it is necessary to come down to tactical level in the shape of annual corporate plans covering the 5 or 10 years immediately ahead. These plans represent the best combination of business and resource plans which appear practicable at the time of production to enable progress to be made in the short-term towards the achievement of the long-term sector objectives. The investment content of the Corporate Plan needs to be detailed and project specific, at least for the first five years, because it will be developed and used for budgetary control purposes.

Individual projects within the programme must still be subject to financial appraisal before their implementation is approved, and the appraisal techniques which are described in Mr Posner’s paper still apply. But they apply with one important difference; it is no longer sufficient to prove that an individual project is financially sound on its own, it must be shown to be an essential part of an investment programme which is
itself an ingredient of a long-term sector strategy or series of strategies. Judging the merits of investment in the form of individual projects could, in fact, be positively misleading, since it is not difficult to think of an individual project which could produce an acceptable return on the investment required and yet be totally irrelevant, and therefore, misguided, in the context of the longer-term strategy for the business sector concerned. Business plans or sector strategies are unlikely, however, to do more than establish the need for a particular project or give more than a broad indication of its financial effects. There will usually be several different ways in which this need can be met, and it is here that the normal investment appraisal has a continuing and important role - to weigh up the merits of the different options and determine the precise form which the project should take, its timing in relation to other projects and the detailed estimates of the financial consequences of carrying it out.

To be effective, railway investment needs to be planned, not project-led, but some means must be found to assess the merits of the plans themselves and establish criteria by which they can be judged. Sector studies may provide a picture of what the situation may be like at a given point in time in the long-term future, i.e. the "steady state", but it requires a
separate series of calculations to assess how best to progress from the present situation to achieve sector objectives and so reach that state. This is essentially a task to be undertaken in conjunction with the 5-10 year Corporate plans, in which the impact of change, including both investment and, where necessary, disinvestment can be measured in cash flow terms. It is in the context of these medium term plans that the development or running down of different business sectors, with the replacement or abandonment of assets and transitional cost involved, must be worked out in detail to enable the best possible methods and timescale for achieving sector objective to be established. This search for the best "strategic path" to the steady state has a considerable effect on investment, since it requires an examination to be made of different mixes of project within the programme as well as variations in the timescale and sequence in which projects are to be undertaken. The programme of investment which is ultimately incorporated in the plans as a result of these considerations must not only produce a satisfactory answer in terms of the required rate of return but also be acceptable in respect of its effect on the year by year cash flow of the business. It is only after these processes have been completed that
individual projects can be appraised against a valid background.

One further point needs mentioning: long-term strategies and sector objectives need to be updated from time to time, but probably not more often than every four or five years. Strategic paths and the medium-term plans in which they are incorporated, on the other hand, must be looked at more frequently to ensure that the business is on course, or, alternatively, to determine what steps are needed to bring it back on the course or even to alter the course. The normal practice of rolling forward the Corporate Plan by one year every year is sufficient for this purpose.

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